Political

Egypt Two Years Later

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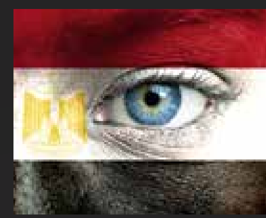

Opinion

Subsidies, Rationality, and Revolution: An Alternative Perspective

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EGYPT OIL&GAS NEWSPAPER

March 2013 Issue 75 28 Pages www.egyptoil-gas.com

Black Market Manipulation: Egypt's Diesel Dilemma

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75th issue Celebration

75th issue Celebration

Egypt Oil and Gas Celebrates 75th Issue

Mohamed Fouad
President
Egypt Oil & Gas

Upon the publication of our 75th issue of Egypt Oil and Gas, I must first extend a thank you for all the support we have received over the past 7 years. Our partners, clients, advertisers and affiliates have been instrumental to our success and we look forward to collaboration in the future. It is hard to believe we are already at our 75th issue. I feel like it was just yesterday that I was writing this letter for our 50th issue nearly two years ago. A lot has changed since our first issue in 2007 and I am very proud of how far our publication has come. We were the first oil and gas industry newspaper in Egypt and we continue to be the leading source of industry information here in Egypt. We strive to provide up to date and "hard to get" information regarding the industry by publishing concession maps, handbooks, industry supplements and well as investigative reports on issues that affect the sector.

Much has changed in Egypt in the last four years. We have experienced a revolution and the people have voted in their first democratic elections in 30 years. The political and socioeconomic conditions of Egypt remain uncertain. Amidst the shifting Egyptian landscape, our publication will continually strive to be a reliable and consistent source of information on events and trends that impact the Egyptian oil and gas sector.

I believe our experience and reputation within the industry uniquely situates Egypt Oil and Gas to be a driving force in facilitating dialogue amongst executives and government officials in order to directly confront problems and issues facing the oil and gas sector. Last March we held our first Roundtable discussion. This past January we held our Second Annual Roundtable event where agreement models were discussed in detail. Both events were extremely successful in encouraging industry dialogue. I hope to hold similar events in the future, and focus on the formation of an industry committee comprised of key government decision makers and top industry executives in order to continue dialogue aimed at the resolution of industry problems. I hope these efforts will not only help in the resolution of industry challenges, but provide a base for future innovation, growth and development within our sector.

Quotes

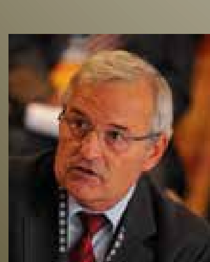
"I am very happy to hear that your magazine has completed its 75th issue. I remember the day when you started the magazine. It was your lifetime dream, which could only be achieved through hard work and talent. The credit for all this also goes to you and your staff of editors, writers and journalists, as their sheer hard work, perseverance and determination has helped the magazine reach this place."

Hesham Ismail
Vice President North Africa - Halliburton

"Egypt Oil & Gas magazine is a valuable source of information on the Egyptian oil and gas market and an important medium through which we can promote our services.

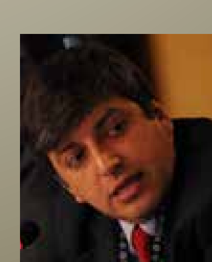
John Evans
General Manager
Fugro

"With its 75th issue, Egypt Oil & Gas Newspaper has become an indispensable reference for all professionals of the oil and gas business in Egypt



Jean-Pierre Dolla
Total E&P
Managing Director

"Congratulations on your 75th issue which marks over 6 years of hard work and dedication to unite the sector's private and governmental companies. Egypt Oil and Gas succeeded on both formal and informal levels to bring viewpoints closer; either via roundtable meetings and seminars, which have always been praised for the organization, caliber of participants and overall professional atmosphere, or via Ramadan Football Tournament, that has become the highlight of the sector's sports activities.



Miguel Angel Vargas
General Manager
Enap Sipetrol - Egypt Branch

"Egypt Oil & Gas has been a valuable resource for industry information as well as addressing key industry issues. We look forward to further collaboration to enable Egypt to achieve its rich hydrocarbon potential.

Jeroen Regtien
Vice President Egypt
Shell Upstream
International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A State of Anxiety

It should be obvious that an increasingly palpable sense of worry is creeping into the Egyptian energy market. In addition to more widespread and recurrent political protests occurring in Port Said, Mahalla and Mansoura, this month also witnessed protests of a more specific nature aimed at plans to adjust energy subsidies. With near simultaneity, cement and brick workers violently protested diesel price increases and recent reports of the impending reduction in bread subsidies will invariably yield similar unrest.

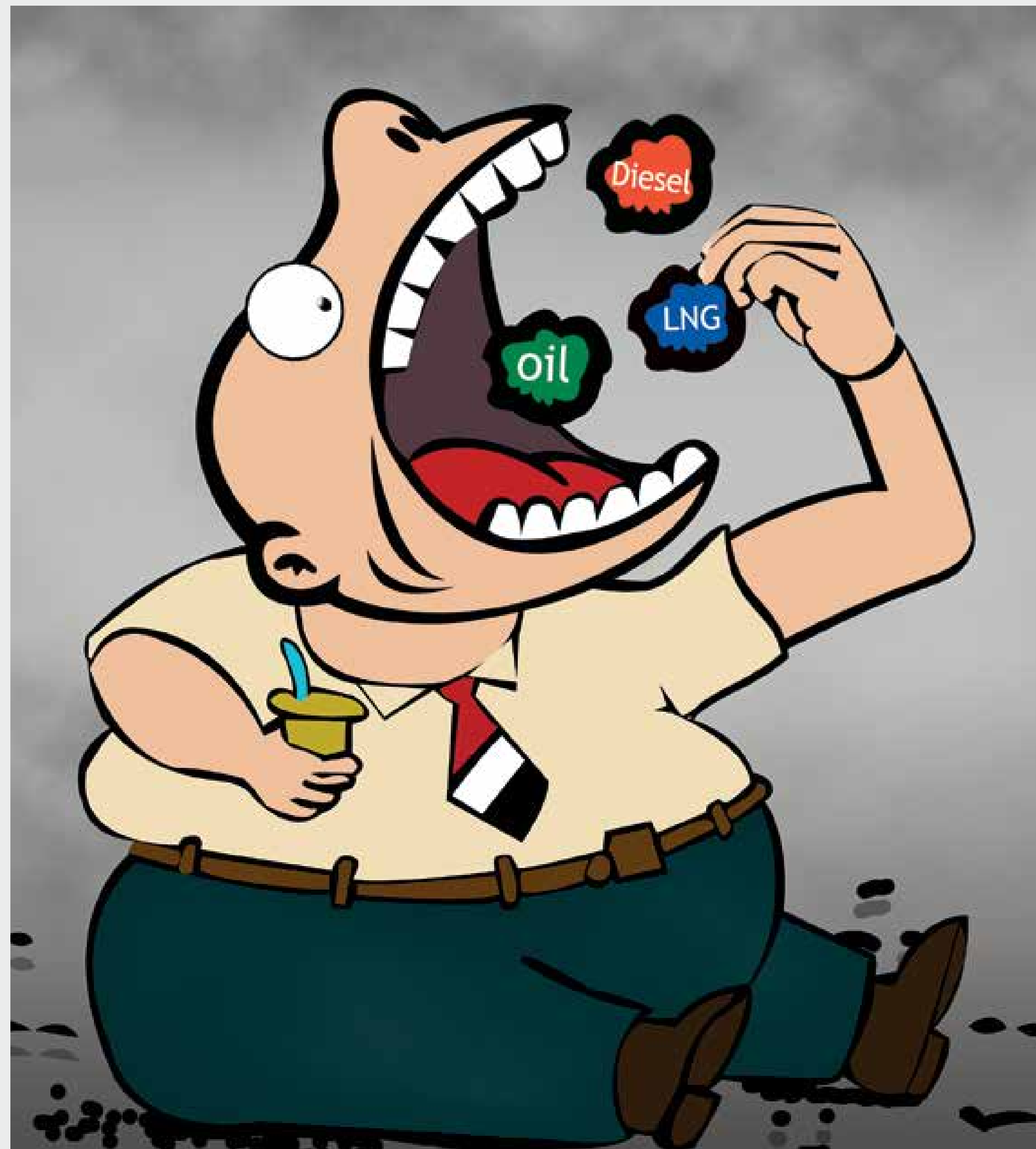
These specific events are obviously disconcerting but exacerbated by the broader issues of sociopolitical instability due to rising inflation and the related currency devaluation. The contemporary political and socioeconomic state of Egypt is anxiety inducing for residents as well as foreign investors thus prompting urgent questions regarding steps that can be taken to remedy the rapidly declining state of affairs. Of course, these questions might also be directed toward to the Egyptian oil and gas sector specifically. Despite government efforts this month to pay back the billions of dollars in arrears owed to international oil companies, the question must be asked… "Is it too little too late?" Despite optimism expressed by IOCs about potential within the sector, we should perhaps also consider at what point the benefits of rational problem solving, inside and outside the sector, might be overwhelmed by the social and political consequences of resolving present economic difficulties.

Julie Herrick
Editor in Chief

Prices

Bullion Market		Crude Oil	
GOLD	SILVER	BRENT	WTI
1670.98	31.18	112.14 USD/BBL	94.90 USD/BBL
-0.55%	0.06%	3.16%	7.5%

CARTOON



Egypt's Insatiable Appetite

By Mai Gamal

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WHEN VERSATILITY COUNTS...

MV FUGRO NAVIGATOR

The Fugro Navigator the only specialist geoscience survey vessel dedicated to the Egyptian market. The Navigator's multi-role capability allows her to undertake a wide range of survey activities, such as geophysical and geotechnical surveys for drill sites and pipelines, ROV surveys and inspections, and high resolution seismic surveys and environmental surveys.

As a specialist survey vessel, the Navigator offers significant advantages over vessels of opportunity by offering:

- Greater versatility
- Improved safety performance
- Reduced weather standby costs
- The ability to respond quicker to requests for projects
- Hull-mounted sensors produce that higher quality data
- Reduced turnaround time for reporting

The Navigator is permanently equipped with a wide range of geophysical equipment for deep and shallow-water operations while ROV systems and geotechnical and environmental equipment are be mobilized to the vessel on a project-by-project basis. She has carried out an average of 15 survey projects each year since her introduction in early 2008, in water depths from as shallow as 10m to over 1300m.

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Qarun Completes Activities on New Well

Qarun Petroleum Company recently completed drilling one developmental well. The drilling occurred in the company concession area in the Western Desert. Qarun is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache. The HEBA-302 oil producing well was drilled to a depth of 7,070 feet utilizing the EDC-63 rig. Operational investments surrounding the drilling process reached 965,145 USD. Qarun production rates during January 2013 reached 1,553,067 barrels of crude oil.

BAPETCO Drills New Developmental Well

BAPETCO Petroleum Company recently concluded drilling a new developmental well. The drilling operation occurred in the company's concession area in the Western Desert. BAPETCO is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and the Shell Corporation. The AL FADL-27 (AL FADL-IE) oil producing developmental well was drilled to a depth of 4,774 feet utilizing the EDC-72 rig. Drilling expenditures are estimated at 1.448 million USD. BAPETCO production rates of crude oil and condensates reached 1,031,647 barrels while natural gas production reached 1,957,321barrels equivalent as the end of January 2013.

Apache Concludes Drilling of Exploratory Well

Apache recently drilled an exploratory well in the Western Desert. Total investments associated with the project are estimated at 5.309 million USD. The WKAL-F-1X oil-producing exploratory well was drilled to a depth of 16,450 feet via the EDC-1 rig. The drill was abandoned and considered dry.


© Apache Corporation

GPC Resumes Its Activities In The Western Desert

GPC Company recently started drilling a new developmental well. The drilling operation occurred in the company's concession area in the Western Desert. The S.SENNAN-3 oil-producing developmental well was drilled to a depth of 7,080 feet utilizing the ST-4 rig. GPC production rates during January 2013 reached 2,167,595 barrels of crude oil and condensates while natural gas production reached 204,365 barrels.

DUBLIN Concludes Drilling of New Developmental Well

Within the context of its 2012-2013 drilling plan, DUBLIN Petroleum Company has recently finished the drilling process of a new developmental well. The drilling operation occurred in the company's concession area in the Eastern Desert. The MESEDA H-7 oil producing developmental well was drilled to a total depth of 4,800 ft utilizing the ZJ-45L rig. Total investments associated with the project are estimated at 928,921 USD. The drilling operations lasted for 18 days starting from 8/12/2012 to 26/12/2012.

Retraction: Vega Petroleum Limited Operating in Gebel El Zeit Offshore Concession

Vega Petroleum Limited (VPL), a privately owned exploration and production company established in the British Virgin Islands with its principals from the Middle East, announced today that it has successfully received approval for working interest and operatorship in the Ras El Ush (REU) field in the Gebel El Zeit Offshore Concession. The working interest was acquired from Canadian E&P Company, Dover Investment Ltd by EGPC.

Vega is the main stakeholder and operator of REU owning 82 percent of the concession rights. REU concession covers a total area of 9.31 sq km in the Gulf of Suez, one of Egypt's most prolific petroleum provinces, which contributes 80 percent to the country's reserves and more than 75 percent of its production.

Haytham Ataya, Managing Director of Vega Petroleum Limited said: "This award is a key operational milestone for Vega. It demonstrates Vega's commitment and capability to a long-term presence in Egypt.

ESHPETCO Concludes Drilling Developmental Well

ESHPETCO recently drilled a developmental well in the Eastern Desert. ESHPETCO is a joint venture between EGPC and Lukoil Russian Corporation. Total investments associated with the project are estimated at 1.983 million USD. The RE-38 oil-producing developmental well was drilled to a depth of 5622 ft via the EDC-6 rig. The drilling operations took around 24 days beginning October 4th and concluded on October 28th 2012.

BAPETCO Drills New exploratory Well

BAPETCO Petroleum Company has recently concluded the drilling a new exploratory well. The drilling operation occurred in the company's concession area in the Western Desert. BAPETCO is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Shell Corporation. The BED 3-C4W-B oil producing exploratory well was drilled to a depth of 12,829 feet utilizing the EDC-51 rig. The drilling expenditures are estimated at 3.566 million USD. BAPETCO production rates of crude oil and condensates reached 1,031,647 barrels while natural gas production reached 1,957,321barrels equivalent as the end of January 2013.

Khalda Drills New Well

Khalda Company began drilling a new developmental well. Khalda is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache American Corporation. The drilling operations occurred in the company's concession area in the Western Desert. The UNAS-11 oil-producing developmental well was drilled to a depth of 6,400 feet utilizing the EDC-66 rig. Operational investments surrounding the drilling process reached 315,000 USD. khalda production rates of crude oil and condensates reached 4,255,238 barrels while natural gas production reached 4,985,714 barrels equivalent as the end of January 2013.

Agiba Drills New Developmental Well

Agiba Company recently started drilling a new developmental well. Khalda is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Mitsui with 10 percent shares, and IEOC with 40 percent shares. The drilling operation occurred in the company's concession area in the Western Desert.

The RAML 28 oil-producing developmental well was drilled to a depth of 4,700 feet utilizing the PDI-147 rig. Operational investment surrounding the drilling process reached approximately 978,000 USD. Agiba production rates of crude oil and condensates reached 1,663,888 barrels while natural gas production reached 54,038 barrels equivalent as the end of January 2013.

Kuwait Energy Drills New Developmental Well

Kuwait Energy Petroleum Company recently started the drilling process for a new developmental well. The drilling operation occurred in the company's concession area in the Eastern Desert. The YUSR- 58 ST-1 oil producing well was drilled to a total depth of 4,324 feet utilizing the ECDC-1 rig. Drilling expenditures surrounding the project are estimated at 1.826 million USD.

Qarun Completes Activities on Two Wells


© Apache Corporation

Qarun Petroleum Company recently completed drilling two new exploratory wells. The drilling operations occurred in the company's concession area in the Western Desert. Qarun is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache Corporation.

The HEBA-700X oil-producing exploratory well was drilled to a depth of 6,935 feet utilizing the EDC-63 rig. Operational investments surrounding the drilling process are estimated at 1.090 million USD. The well was abandoned and is considered dry.

The second well, the WONC-3X oil-producing exploratory well was drilled to a depth of 11,775 ft. utilizing the EDC-47 rig. Drilling expenditure in the well are estimatd at 2.776 million USD.

Choice Words

" Government recently signed an agreement to schedule the petroleum ministry debts to Petronas and BG companies. The ministry is working hard to pay off all the debts to foreign companies in Egypt. The Petroleum Ministry is also working on scheduling debts to foreign oil companies operating in Egypt.

Minister of Petroleum **Osama Kamal,** obtained from Ministry of Petroleum Electronic Gate

" The recent natural gas discoveries in the West Manzala Concession area in the Nile Delta refer to the great potentials in this area. That will promote the company to speed up the implementation of the plans and programs of research, exploration and development in the light of the high economic feasibility of the work in this area.

Dr. Patrick Allman, the General Manager of Dana Gas

" Government plans to pay 25% of its debts to foreign partners. Such agreement will include the payment of those debts with Egyptian pound instead of USD. The government had reached that agreement in an attempt to solve the current energy problem and natural gas shortages, which led to the suspension of projects during the last period. The government will pay the rest of debts in installments over the coming period.

Hatem Saleh, The Minister of Industry and Foreign Trade, El-Watn News Onlin

" Dana Gas is keen to support its presence and strengthen its investments in Egypt. The company is the sixth largest natural gas producer in Egypt. The company is currently planning to increase its future production to exceed 200 MMcf per day. The recent positive measures taken by the Ministry of Petroleum in cooperation with Egyptian petroleum companies encourage investors to increase the volume of their investments in Egypt.

Rashid El-Jarwan, Executive Director of Dana Gas

Khalda Drills Three New Wells

Khalda Company recently started the drilling process for one exploratory and two developmental wells. Khalda is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache Corporation. The drilling operations occurred in the company's concession area in the Western Desert.

The E. RZK-98 oil-producing exploratory well was drilled to a depth of 9,521 feet utilizing the EDC-65 rig. Investments surrounding the drilling process reached approximately 1.712 million USD. The well was abandoned and is considered dry.

The second well, the UNAS-13 oil-producing developmental well, was drilled to a total depth of 6,415 feet using the EDC-66 rig. Drilling expenditures for the well are estimated around 400,000 USD.

The third well, the NRQ 255-2 oil producing exploratory well, was drilled to a depth of 8,706 feet utilizing the EDC-67 rig. Investments surrounding the drilling process are estimated at 1.476 million USD.

Petrosilah Concludes Drilling of Exploratory Well

Petrosilah recently drilled an exploratory well in the Western Desert. Pertrosilah is a joint venture between EGPC and Merlon International. Total investments associated with the project are estimated at 2.418 million USD. The YOUNIS-1X oil-producing exploratory well was drilled to a depth of 9,730 feet using the EDC-53 rig. Petrosilah production rates during January 2013 reach 111,973 barrels of crude oil.

Petrobel Completes Drilling of Well in Sinai

Petrobel has recently completed the drilling of a developmental well in its Sinai concession area. Petrobel is a joint venture between EGPC and ENI. The oil producing well, labeled BLS-10 was drilled to a total depth of 10,030 feet using the ST-12 rig. Operational investments surrounding the project are estimated at 3.664 million USD. Petrobel production rates of crude oil and condensates reached 3,797,036 barrels while natural gas production reached 8,126,080 barrels equivalent as the end of January 2013.

ZETICO Drills New Exploratory Well

East Zeit Petroleum Company (ZETICO) recently completed drilling a new exploratory well in its Eastern Desert concession. ZETICO is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and DANA Petroleum. The E.MATR-2X gas-producing exploratory well was drilled to a depth of 5,365 feet utilizing the TANMIA rig. Drilling expenditures amounted to 2.566 million USD. Zetico production rates of crude oil and condensates reached 239,519 barrels while natural gas production reached 158,68 barrels equivalent as the end of January 2013.

PetroSilah Concludes Drilling of Exploratory Well

PetroSilah recently concluded drilling an exploratory well in the Western Desert. PertroSilah is a joint venture between EGPC and Merlon International. Total investments associated with the project are estimated at 1.720 million USD. The WARD-2 oil-producing exploratory well was drilled to a depth of 8,800 feet using the EDC-49 rig. PetroSilah production rates for January 2013 reached 116,973barrels of crude oil.

Declining Natural Gas Supplies to Jordan

Egyptian supplies of natural gas to Jordan fell substantially as a result of ongoing political instability. According to Egypt Daily News the Jordanian Ministry of Energy stated that Egyptian exports of natural gas declined to 80 million cubic feet (mcf) per day in early February, which is one-third of the 240 (mcf) outlined in the gas agreement between Jordan and Egypt. In 2009 Egyptian gas accounted for 80 percent of Jordan's electrical generation needs. In 2012 that figured decreased by 18 percent. Natural gas exports from Egypt to Jordan have been unstable for two years as a result of numerous pipeline bombings in the Sinai and recurrent political instability in Cairo. The drop in Egyptian gas supplies forced Jordan to rely upon oil imports, which substantially increased the Jordanian national energy bill to JD 4.4 billion. The decrease prompted Jordanian officials to question the future security of Egyptian natural gas imports.

Dana Gas Profits Grow 20 Percent

Dana Gas PJSC recorded a net profit growth of 20 percent in 2012. Profit rose from $138 million in 2011 to $165 million in 2012. Sales decreased from $690 million to $636 million as Dana reduced production in Egypt. Dana collected $301 million in payments from the Egyptian and Iraqi Kurdish authorities, but did not specify the remaining amount owed. The company's cash balance increased by 47 percent from $112 million in 2011 to $165 million in 2012 and total assets were at $3.5 billion.

In 2012, Dana averaged about 60,00 barrels of oil equivalent from Egypt and the Kurdistan Region of Iraq. In Egypt, the company implemented a more conservative cash policy due to the delays in collection. Additionally, there was a suspension of Liquefied Petroleum Gas (LPG) production in the Kurdistan region of Iraq after an accident damaged the LPG loading bay. Dana expects to see increased production in 2013 when the loading bay in Iraq is repaired and new discoveries in Egypt are brought into production.

Khalda Drills New Developmental Well

Khalda Company recently commenced drilling of a new developmental well. Khalda is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache American Corporation. The drilling operations occurred in the company's concession area in the Western Desert. The KHEPRI-38 oil-producing developmental well was drilled to a depth of 7,400 feet utilizing the EDC-19 rig. Investments surrounding drilling process reached approximately 99,000 USD.

PetroCeltic News

Petroceltic's Mesaha-1 well was plugged and abandoned after failing to encounter hydrocarbon indicators. Drilling was executed by the EDC-9 rig and reached a total depth of 6,958 feet. The total cost was $10.3 million according to their press release.

The South Damas-2 development well in the Nile Delta was successfully drilled to 4,700 feet using the Tanmia-1 rig. The well is expected to start production in late February. The well, having penetrated 96 feet of high quality gas-bearing sands in the Messinian formation, is expected to increase the total South Damas field production rate to over 20 mmcfpd.

Their East Dikirnis-1 development well is now in production following a successful tie back to the nearby West Dikirnis facilities. The well is processing at a restricted rate in order to gather reservoir performance data.

Eni makes new discovery Developmental Well

ENI made a new oil discovery in the Western Desert from the NFW 'Rosa North 1X' well located in the Meleiha Concession. The well encountered a total pay of 80 meters in good-quality sandstone in the Bahariya, Alam El Beiub, Khatatba and Ras Qattarta reservoirs. The Rosa North 1X discovery follows another discovery in the Emry Deep field in May 2012. This discovery proves that the Meleiha concession still has potential, especially in deep untapped areas. ENI has a 56% working interest in the Meleiha Concession through its affiliate IEOC, with partner Lukoil (24%) and Mitsui (20%).

Story Board

Butane Love

BG Forgoes Production Targets for Egypt

British company BG reported that it does not expect to meet a medium-term production target of one million b/d oil equivalent by 2015. According to fourth quarter results total barrels of oil equivalent were down 2 percent from the year before as a result of issues with reservoir performance in Egypt and facility shutdowns in the UK North Sea. Production averaged 657,000 boe/d in 2012. In Egypt, production was down due to significant reservoir problems. Production will continue to decline until new development wells come on-stream in 2014.

Dana Petroleum to Develop New Oil Field

Following the successful completion of an exploration well, Dana Petroleum announced that they would proceed with the development of the Nefertiti oil field in the Gulf of Suez. This is the first offshore field the company has explored by drilling extended reach wells from an onshore location.

The Egyptian government gave Dana Petroleum, in partnership with INPEX, the approval after the Netertiti-2x well tested at a maximum stabilized flow rate of 1,850 bpd with an Electrical Submersible Pump (ESP). It is estimated that the Nefertiti Field will produce around 2,500 bpd when it comes on stream in about six months.

EGPC agreed with Dana and INPEX that the Nefertiti field would be considered a commercial field in November 2012. The Minister of Petroleum and Mineral Resources approved the lease late January 2013.

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Khalda Drills New Well

Khalda Company recently concluded the drilling of a new exploratory well. Khalda is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache American Corporation. The drilling operations occurred in the company's concession area in the Western Desert.

The QASR NE-1X ST-1 gas-producing exploratory well was drilled to a depth of 14,418 feet utilizing the EDC-8 rig. Investments on the drilling process are estimated at 3.310 million USD.

Qarun Completes Activities on New Well

Qarun Petroleum Company recently completed drilling a new exploratory well. The drilling operations occurred in the company concession's area in the Western Desert. Qarun is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Apache.

The HEBA - 600X oil-producing exploratory well was drilled to a depth of 7,360 feet utilizing the EDC-63 rig. Investments surrounding the drilling process are estimated at 555,000 USD.

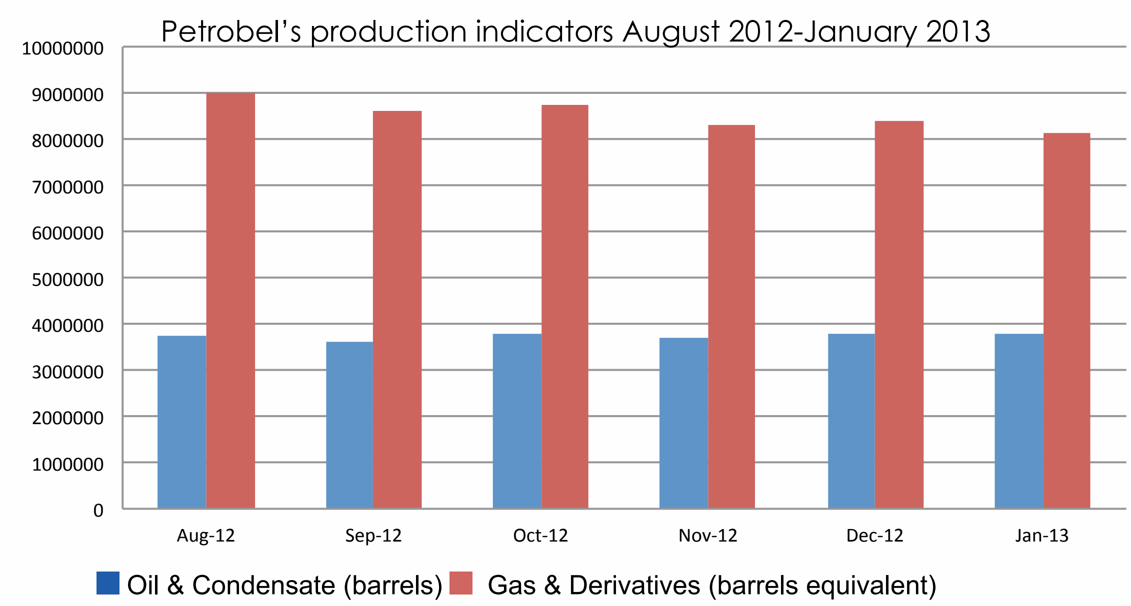
Petrosannan Completes Activities on Two Wells

Petrosannan Petroleum Company has recently completed drilling two new developmental wells. The drilling operations occurred in the company concession's area in the Western Desert. Petrosannan is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and Naftogaz Corporation. The AESE-3 oil-producing developmental well was drilled to a depth of 11,385 feet utilizing the ZJ-47L rig. Egypt Oil & Gas has been informed that investment surrounding on the drilling process reached approximately 2.915 million USD

The second well, the AESE 3 1/7 oil-producing developmental well was drilled to a depth of 11,073 feet utilizing the ZJ-47L rig. Drilling expenditures in the well reached approximately 2.640 million USD. The drilling process lasted 59 days starting from November 16th 2012 to January 14th 2013.

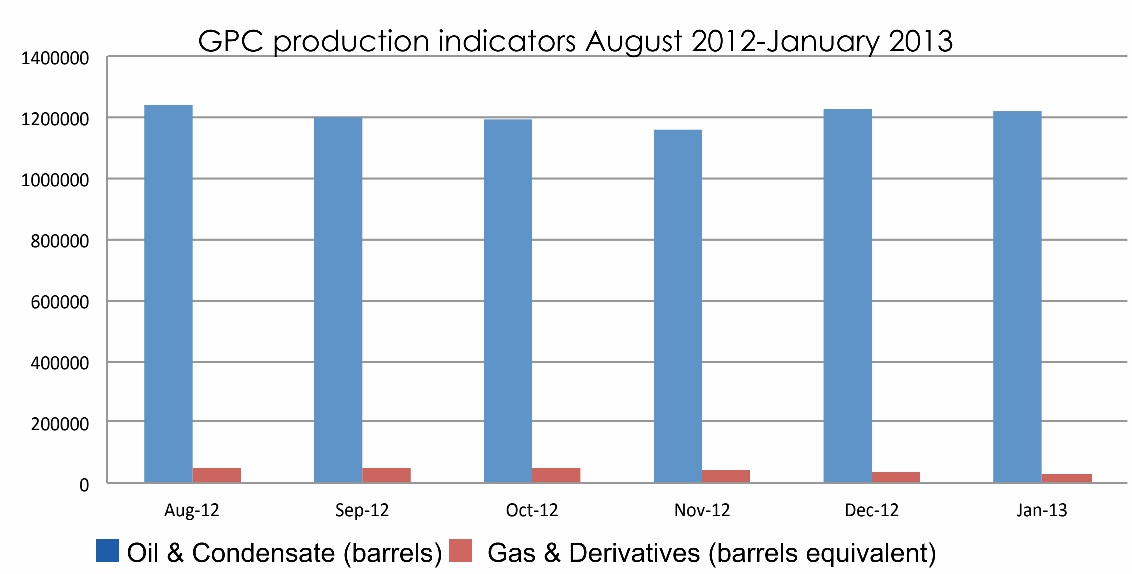
Petrosannan's production rate for January 2013 reached 148,923 barrels of crude oil.

Gas Drops Off As Oil Stays Constant for Petrobel



Petrobel (Belayim Petroleum Company) saw a minimal drop in gas and derivatives from August 2012 to January 2013. In August numbers were at 9,013,619 barrels before dropping to 8,126,080 barrels in January. The oil and condensate numbers stayed relatively constant during the same time period, starting at 3,754,977 barrels equivalent in August and ending at 3,797,036 barrels equivalent in January.

No Major Fluctuations For GPC



GPC (General Petroleum Company) saw relatively constant numbers for their oil and condensate, as well as gas and derivatives production over the last 6 months. In August, oil production started at 1,242,260 barrels before dropping to its lowest number of 1,159,795 barrels in November. It ended at 1,219,300 barrels in January. For gas production, there was a small decline over the six months from 49,107 barrels equivalent in August to 32,321 barrels equivalent in January.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BP Sends Gas Shipment to Israel

BP PLC sent its first liquefied natural gas shipment to Israel via offshore buoy in late January. Israel needs the shipment to meet its consumption demands until it starts local production at its offshore Tamar reserve later this year. Israel Gas Lines Co., a government-owned Israeli company, built the buoy for $134 million.

Israel has been facing gas shortages after the cancellation of their supply deal with East Mediterranean Gas Co. from Egypt. Previously, Israel received 40 percent of its energy needs from Egypt. However, due to political changes in Egypt and numerous attacks on the pipeline in the Sinai Peninsula, the deal was cancelled.

BP has not disclosed how much gas Israel plans on buying or how much it paid for its first shipment, but the buoy can accept up to 3 million cubic meters of gas a year. The buoy offers energy security for Israel, as it will allow foreign companies to supply gas without sending it through the Sinai Peninsula. Production at the offshore Tamar field is scheduled to start in April. It is estimated that the Tamar field contains 9 trillion cubic feet of gas.

Mediterranean Fact

- The dry Mediterranean basin would have been a lifeless and hot place due to the high salinity and areas of the geography as much as 3 miles (4.8 kilometers) below sea level. By comparison, the lowest point on land today, the shore of the Dead Sea, is just 1,371 feet (418 meters) below sea level.
- At the level of the Mediterranean, there would be 1.7 times the atmospheric pressure at sea level. This means a wind blowing there would be 57°F to 85°F (32°C to 47°C) hotter there than at sea level, which may have been scorching. The evaporates covering the entire basin would preclude the presence of any plant or animal life, so the area would have been one of the harshest deserts on Earth.

Italy and Algeria Bring Gas Field On Stream

Italy's ENI and Algeria's Sonatrach started production at the Menzel Ledjmet East (MLE) field in the Berkine Basin around 1,000 km from Algiers. ENI bought the MLE permit in December 2008 from Canada's First Calgary Petroleum. The MLE field is 200 km north of the In Amenas field. According to company data the field can process 9 million cubic meters of gas, 15,000 barrels of oil and condensate and 12,000 barrels of LPG.

In 2012, ENI was the largest producer in Algeria with 80,000 barrels of oil equivalent per day. ENI has been working in Algeria since 1981 and currently has 24 exploration and development licenses with an additional 8 under development

Israel - Cyprus Partnership in Mediterranean tion

Several news outlets including The Financial Mirror and Cyprus Mail released reports concerning the transfer of 30 per cent of Noble Energy's share in Cyprus' offshore Block 12. US firm Noble Energy transferred its gas exploration rights to Avner Oil and Gas, and Delek Drilling. Avner and Delek Drilling are subsidiaries of the Delek Group, one of Israel's largest companies as well as top supplier of fuel to Israel. Noble, Delek and Avner comprise the majority shareholders in Leviathan within Israel's Exclusive Economic Zone (EEZ). Numerous executives and company officials expressed optimism concerning the transfer and the long-term partnership it implies. Commerce Minister Neoclis Sylikiotis stated the deal signifies "a new era of strategic partnership between Cyprus and Israel," which will, ideally, contribute to "conditions of prosperity, peace and progress." Sylikiotis also spoke about the future potential for increased collaboration. Minister Sylikiotis specifically mentioned future potential for the construction of an LNG plant in order to ship natural gas to Europe and other international markets. Delek CEO, Gideon Tadmor, stated that Cyprus "has real potential of becoming an energy hub." Drilling in Block 12 is expected to commence in October.

Turkey's Energy Dilemma

Several news outlets including Turkish News Weekly and The National reported on Turkey's energy dilemma. This week Turkish Minister of Energy and Natural Resources Taner Yildiz expressed frustration over increased momentum within Cyprus in the realm of hydrocarbon exploration. Tensions between Turkey and Cyprus will likely continue in this regard as the offshore areas where maritime borders are under dispute potentially contain vast reserves of natural gas. Charles Ellinas of Cyprus National Hydrocarbons Company estimated that Cypriot waters hold at least 60 trillion cubic feet of gas. The conflict stems Cyprus' cooperation with Italian company Eni's for hydrocarbon exploration in the eastern part of Mediterranean. Yildiz remarked that Cypriot efforts in the Mediterranean were against international law as the maritime borders concerning the areas under exploration were unclear and constituted an "undetermined economic zone." The legal ambiguity stems from the fact that Ankara does not politically recognize the Republic of Cyprus, choosing only to maintain relations with the Turkish Republic of Northern Cyprus where Turkish troops have maintained a military presence since 1974. According to Hürriyet Daily News. Yildiz initially demanded the cessation of Cypriot exploration activities in the Mediterranean, yet recently stated that all revenues obtained from the drilling operations should be evenly distributed. He further noted, "Turkey will not cooperate with companies who participate in oil and gas research there until the conditions are clarified."

Burullus starts New drilling activities in Mediterranean

Within the context of its 9A-drilling phase, Burullus Petroleum Company recently released plans to drill nine new wells. Three wells will be exploratory and six wells will be developmental. Burullus is a joint venture between the Egyptian General Petroleum Corporation (EGPC) and BP and Petronas Company. The drilling operations will occur in the company's concession area in Mediterranean. BP has already approved drilling operations while approval from the second partner, Petronas, is still pending. Drilling expenditures are estimated at 1.5 billion USD with an average of 60 million USD per well.

As a part of the 9A-drilling phase, the three exploratory wells will add about 500 bcf to the existing approved gas reserves.

In addition, Burullus will drill another exploratory well in February 2013. The SCEPTER-1 gas-producing exploratory well will be drilled to a depth of 3500 feet utilizing OCEAN ENDEAVOR rig. Spudding will soon occur targeting lower Pliocene reservoir channel. The anticipated reserve from this well is estimated at 350 bcf. Investments surrounded the drilling process are estimated at 60 million USD.

Refinery Upgrade in Turkey to Get GE TechnologyMediterranean

The Izmit Tupras refinery on the Gulf of Izmit in Turkey will receive a wide range of technology and equipment from GE. Through Téchicas Reunidas of Spain, the refinery's engineering, procurement and construct contractor, GE will supply two Frame 6B gas turbines, one steam turbine and three generators for the Tupras upgrade project. The GE technology will be used at a cogeneration site that provides energy and steam to the Tupras facility.

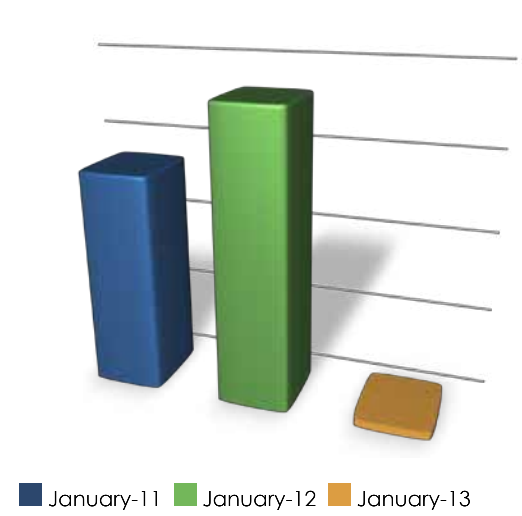
The Frame 6B gas turbine will be equipped with Dry Low NOx (DLN) combustion technology in order to reduce emissions. Turkey recently passed a new law that requires natural gas plants to limit emissions to 50mg/Nm3.

GE also signed a Contractual Service Agreement (CSA) to provide maintenance to Turpas for 12 years. Currently, GE has CSA's with more than 700 sites worldwide.

The expansion plan for the cogeneration plant is expected to begin commercial operation in the first quarter of 2014. The Izmit Tupras plant is one of four total facilities for Tupras in Turkey. Tupras is the largest oil company in Turkey and processes 28.1 million tons per year.

Lebanon Gets Ready for Natural Gas Auction

The Lebanese government finalized bidding terms for auction of its offshore gas exploration rights. The government will reveal qualified bidders by late March. Numerous companies have expressed interesting in bidding despite Lebanon's low proven reserves and the absence of supporting infrastructure.



Equivalent Gas		
January-11	January-12	January-13
24035000	24716071	22074107

Oil		
January-11	January-12	January-13

Liquefied Gas		
January-11	January-12	January-13
462425	522218	411918

Condensate		
January-11	January-12	January-13
1499406	1398330	1214914

Mediterranean Rig Count 2013	Total	Percentage of Total Rigs
	9	8 %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Gulf News

Oman arranges deals for two gas pipelines

State-owned Oman Gas Company (OGC) intends to award an estimated $40 million contract for the Salalah Gas Loopline in April. The contract will account for construction of an 85-kilometer, 32-inch pipeline and associated facilities.

According to News Outlet Middle East Business Intelligence (MEED), Oman is evaluating engineering, procurement and construction (EPC) bids for two gas pipelines in the southern and central regions of Dhofar and Al-Wusta. Contractors bidding for the contract are Oman-based Galfar Engineering & Contracting and India's Larsen & Toubro. The company also received project bids from seventeen local and international contractors in September 2012. The project will balance the Nimr gas-pumping project, completed in 2012, which has increased the volume of pumped gas to chemical and industrial plants around Salalah. MEED also published that the 157 kilometer, 20-inch carbon steel pipeline will run in a loop from the Barik gas field in Al-Wusta governorate to several valve stations.

Saudi Aramco Commits Two Billion for Jizan Power Plant

According to News Outlet Middle East Business Intelligence (MEED), state-owned oil company Saudi Aramco started commenced efforts towards the construction of a power plant to be placed next to the seven billion dollar Jizan refinery. The project is expected to be larger than most conventional power projects, as it will be incorporated within the context of refinery operations.

Aramco solicited engineering, procurement and construction (EPC) contractors to submit prequalification documents in February. The deadline for submissions is February 17 and Aramco will then issue tenders packages to successful contractor. A lump-sum turnkey (LSTK) contract model will be utilized for the project. The project will be split into five phases: air separation unit and oxygen supply, combined-cycle power plant, gasification, offsite and utilities, and sulphur recovery. The project will include a integrated gasification combined-cycle (IGCC) power plant, which will have a capacity of 2,400 megawatts and use technology provided by the UK/ Dutch Shell Group.

Aramco took over the power plant project from the Saudi Electricity Company (SEC), which was previously in charge of its development.

Fujairah oil storage capacity to grow by 2 mcm

Oil storage capacity in the UAE port of Fujairah is expected to rise by two million cubic meters (mcm) this year to just over 6 mcm. Gulf News reported that the port located outside the Strait of Hormuz witnessed a major boost in the construction of storage facilities since late 2009. Statistics show that Fujairah had 4.07 mcm of oil storage capacity at the end of 2012 with Vopak Horizon Fujairah accounting for nearly half. According to data supplied by port officials, another 2.3 mcm of storage will be added when the seventh phase of Vopak Horizon's expansion project comes online and Singapore-based Concord Energy and China's Sinopec finish their 880,000 cubic meter project. It is expected that by 2015, Fujairah's oil storage capacity will rise to almost 9 mcm, according to the port officials.

Saudi Production Falls

Saudi Arabia reduced crude oil production to 9.25 million b/d in January down from 9.45 million b/d in December. January's rate was the lowest since May 2011. Due to Saudi's reduction, OPEC's total production dropped as well. It fell from 30.65 million b/d in December to 30.45 million b/d in January. The reduced output can be attributed to the seasonal reduction in direct burning of crude oil for electricity in Saudi Arabia. Other OPEC producers such as Algeria, Kuwait, Qatar, and Libya reported small output reductions totaling 300,000 b/d as well. While Angola, Iraq, and Nigeria reported production increases totaling 100,000 b/d.

Saudi Arabia's Largest Solar Plant Up and Running

Phoenix Solar AG, a leading international photovoltaic system integrator from Germany, completed their flagship project in Riyadh. The ground-mounted photovoltaic plant is located on the King Abdullah Petroleum Studies and Research Center (KAPSARC), owned by Saudi Aramco and the world's largest oil research facility. Over the last twenty months, Phoenix Solar has installed more than 12,000 Chinese Suntech Power panels covering an area of 55,000 square meters. The plant has a peak power of 3.5 megawatts and is expected to yield around 5,000 megawatt hours. The power will be fed directly into KAPSARC's medium voltage grid. The solar plant is part of the US Green Building Council's LEED Certification.

The project presented many challenges as there is little research on the effects of desert sand and high temperatures on solar power plants. In order to reduce negative effects, the photovoltaic array boxes were placed in an insulated, air-conditioned inverter building as opposed to outside in the field array. Phoenix Solar worked with Saudi Aramco to meet the requirement and standards set by Aramco on planning, electrical work, air-conditioning technology and lighting.

International News

North Sea Crude Market Shuffled as Shell, BP Change Terms of Trade

Two of the major trading companies in North Sea crude changed the way they perform business in the region in an effort to support the position of benchmark Brent as the price-setter for billions of dollars in trade each day.

According to World Oil Online, Royal Dutch Shell PLC (RDSB), recently updated the terms and conditions under which it has been trading with counterparties in the North Sea since 1990. The company has added a quality premium adjustment to forward contracts for three of the four key regional grades. The quality premium will be added to cargoes of Brent, Ekofisk and Oseberg, and Shell hopes this will provide an incentive to sellers to provide more cargoes of those grades to buyers. Shell also aims the move will allow for higher liquidity and better price discovery in a physical market that feeds through to the setting of Dated Brent. In an official statement concerning the change Shell stated "these changes will improve the effectiveness of the Brent contract as an international price benchmark."

AziNam Acquires Interests in Namibian Offshore

AziNam Ltd., an offshore Namibia focused exploration company, has recently announced opening of its office in Dubai. According to the company press release, AziNam, backed by the Bermuda-based energy investment group Seacrest Capital Ltd, holds interests in 6 licenses covering 67,000km2 , across the Walvis and Luderitz basins in Namibia. According to the company press release, the combination of heightened industry interest along with AziNam's latest licensing and exploration success in geologically analogous regions makes the area an attractive location for hydrocarbon exploration. AziNam Managing Director, David Sturt, said in official statement "We believe that the Namibian Offshore region offers a truly unique opportunity to encounter world class prospects which have only recently been identified due to the application of modern exploration techniques."

Japan Eager to Tap Into US Shale Gas

Japan's Tokyo Electric Power Co (Tepco) is in the final process of signing a deal with Cameron LNG to import 800,000 tpy of liquefied natural gas from the United States starting in 2017. The proposed 20-year deal will allow Tepco to diversify its LNG sources. Most Japanese companies rely on natural gas imports to generate electricity. In 2011, Tepco bought about 24 million tons of LNG, with the majority of its LNG coming from Malaysia and Brunei.

Many utilities in Japan are eager to tap into the US shale gas market following the reduction in their use of nuclear power after the Fukushima catastrophe. Cameron LNG already operates a $900 million LNG import terminal on the Gulf of Mexico in Louisiana, but expects to convert the terminal into an exporting LNG terminal by the end of 2017. They expect to export up to 13 million tpy of gas. There is currently no infrastructure for exporting LNG, but companies like Cameron are building or planning export terminals.

Libya Seeks Saudi Investment in Oil and Gas Industry

The Libyan Oil Minister Abd al-Bari al-Arusi called on Saudi companies to invest in his country to develop the oil and gas sector. According to MEES online publication, Mr. Arusi declared that Libya currently needs assistance with the maintenance of oil refineries, in addition to technical expertise concerning oil storage and petrochemicals projects. The visit was in coordination with Saudi Minister of Petroleum and Mineral Resources Ali Al-Naimi. Their dialogue focused on how Libya can benefit from the Kingdom's knowledge and experience. Mr. Arusi noted the potential for investment opportunities in Libya as a result of its geographic location, which offers access to both European and African markets. He also pointed out future plans for an institution within the Libyan government devoted to affairs related to foreign investment.

Apache Promotes Executives to Lead Growth Initiatives

According to an internal press release Apache recently made significant changes to its leadership structure in an effort to facilitate future growth and development internationally. Thomas E. Voytovich will assume the newly created position of Executive Vice President of International Operations. Voytovich served as Vice President and General Manager of Apache's operations in Egypt since 2009. Thomas M. Maher, currently Vice President and Managing Director of Apache's operations in Australia, will assume the role of Vice President and General Manager of Apache's Egypt operations. Apache has enjoyed considerable success internationally adding 16 billion in global acquisitions since 2010. G. Steven Farris, Apache's Chairman and CEO expressed optimism concerning Apache's outlook for the future. Farris stated, "Simply put, we are bigger, stronger and more diverse than ever as we head into 2013."


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hundreds of nationalities deliver?
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Exxon's Baton Rouge Refinery Gets $125 million Upgrade

Genesis Energy LP will spend roughly $125 million to improve and develop new infrastructure at Exxon Mobil's Baton Rouge refinery. Genesis will update its existing terminal in Port Hudson, LA and connect it to the Maryland terminal with an 18-mile crude oil pipeline. The Baton Rouge refinery has the capacity to handle more than 500,000 barrels a day making it one of the biggest refineries in North America. Construction will start early this year. Construction of the pipeline is expected to finish by the end of 2013 while the upgrades on its Maryland Terminal are expected by 2014. Genesis reported that they struck a deal with Exxon Mobil that will give them a lend-lease deal at their Maryland Terminal.

Iran, A New Jet Fuel Producer

With the inauguration of the second stage of the third phase of the development and renovation of Abadan refinery, Iran can now produce jet fuel. As the Abadan refinery, the oldest in the Middle East, becomes fully operational it is expected to produce about four million liters per day of Euro4 gasoline.

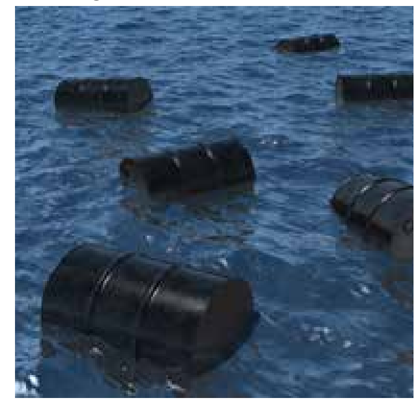
President Ahmadinejad expressed the importance of building new refineries around the country to increase domestic production and attain increased levels of self-sufficient. By completing development plans at some of its oil refineries, Iran hopes to increase their gasoline and gasoil production capacity by 64 and 12million liters respectively per day. In addition to gasoline and gasoil growth, they hope to increase the production of kerosene and jet fuel by 7.4 million liters and liquid petroleum gas by 7.4 million liters per day.

Pressure on Ageing Australian Refineries

An Australian parliamentary committee reported that Australian refiners are at a competitive disadvantage in respect to other refineries in the region. The lower house Standing Committee on Economics argued that ageing facilities, high operating costs, shallow berths and the high dollar rate are all putting pressure on Australian refineries, as many are unable to compete with new "mega" refineries of Asia.

Shell's Clyde refinery has already closed and Caltex's Kurnell refinery is scheduled to close as well. This leaves Australia with only five refineries for the entire country. In comparison to other refineries in the Asian region, these five are relatively small or mid-sized. The closure of Clyde and the impending closure of the Kurnell facilities are expected to reduce Australia's refining capacity by 28 percent.

Australia is the world's ninth largest energy producer, with energy exports reaching $69 billion in 2010-11. They rely on 80 percent of their crude oil from international sources with 15 percent of that coming from the Middle East.



Saudi Aramco and Pertamina Sign MOU for Refinery in Indonesia

Saudi Aramco Asia Company Limited (SAAC) and PT Pertamina (Persero), Indonesia's state oil and gas company have finalized negotiations to set up an $8 million joint-venture oil refinery. They both signed a Memorandum of Understanding to jointly evaluate the economic feasibility to build an integrated refining and petrochemical project. The refinery is expected to process 300,000 barrels of crude oil per day and will be located in Tuban in East Java. The next step after the Memorandum of Understand is a joint scope study that will include market research, configuration studies and economic analysis.

In 2011 the total trade volume between the two countries was $6.85 billion. Indonesia also ranks number 12th among Saudi trade partners. This investment is seen as an opportunity for Aramco to capitalize on Indonesia's growing downstream market.

Profits Up for Shell's Downstream Division

Royal Dutch Shell Plc posted their highest downstream profits since 2006 for the 2012 fiscal fourth quarter. They earned $5.3 billion worldwide in their downstream division compared to $4.27 billion during the same quarter last year. Shell's total 2012 fourth quarter earnings were $6.67 billion, which were higher than 2011's fourth quarter earnings at $6.5 billion. However, total yearly profits declined from $30.9 billion in 2011 to $26.6 billion in 2012.

Shell also paid $11 billion in shareholder dividends in 2012, making it the highest payer of any oil company. Shell's CEO Peter Voser promises to increase the dividend payout by another 4.7 percent in 2013.

Delicto Wind Farm Up and Running In Italy

A new wind farm in the Apulia region of southern Italy is operating and grid connected. The Deliceto Wind Farm will produce around 57 GWh of electricity annually, following the installation of 16 1.5 MW turbines. The LTW80 gearless turbines were commissioned by project developer, Elce Energia, and were manufactured by the Austrian manufacturer Leitwind. The turbines were made at the Telfs manufacturing plant in Austria and were delivered to Italy within 6 months.

Favorable wind conditions have made Apulia one of the top wind energy regions in Italy. The new turbines will be added to Leitwind's previously installed wind farms that already produce 40MW of wind energy. In addition to the new turbines, Leitwind has also finalized a 15-year full service contract, which according to Leitwind's CEO Anton Seeber, guarantees efficient energy production and optimal technical availability.

Ocean Power Technologies Gets Contract for PowerBuoy Technology

Ocean Power Technologies (OPT) signed a ¥70 million (approximately 900,000 USD) contract with Mitsui Engineering and Shipbuilding in Japan. The contract will help develop PowerBuoy power capture as well as wave tank testing.

PowerBuoy is expected to finish the analysis and design stage by the end of April 2013. Once this phase is complete the next steps will be taken towards ocean trials which would provide the basis for a prospective commercial-scale OPT wave power station.

The Japanese government has recently identified wave energy as a key component of their new strategy to increase generating capacity of renewable energy. The Japanese Minister of Environment set a goal of 1,500 MW in new power generation capacity by 2030 using wave and tidal power sources.

Wind Power in Australia Replaces Fossil Fuel with Cheaper Cost

According to recent research by Bloomberg New Energy Finance, wind power in Australia has become cheaper for electricity generation than coal and natural gas. This is following the introduction of charges on carbon emissions. Once the price of carbon emissions are factored in, coal-fired power plants and new natural gas stations will supply electricity at rates of $143 and $116 per megawatt hour, respectively. However, wind farms in Australia are now capable of providing electricity at a cost of $80 per megawatt hour, making it effectively cheaper than coal or natural gas. In addition to taxes on carbon emissions, increased financing costs and gains in natural gas prices have also pushed fossil fuel prices higher.

Michael Liebreich, CEO of Bloomberg New Energy Finance, believes that wind power's low cost relative to conventional fossil fuels proves that clean energy has finally emerged as a game changer and has the potential to turn the economics of power systems on its head.

Renewable Energy

By EOG

Black Market Manipulation:
Egypt's Diesel Dilemma

Daily ques for petrol products are no longer surprising, they have become the norm as Egypt is increasingly forced to navigate the black market to obtain energy essentials for daily life.

By Effat Mostafa

Increasingly a palpable sense of anxiety can be felt concerning the present and future availability of energy products in Egypt. Consistent supplies of oil, gas, butane, and particularly diesel, are becoming difficult to obtain. Diesel shortages have created an ominous and potentially dangerous situation greatly exacerbated by the interference of the black market. Black market dealers pose a significant threat to consumers and regulators and their growing influence and interference in supply mechanisms can be increasingly felt. Egypt Oil and Gas investigates the black market for diesel fuel in Egypt.

Causality and Elements of the Black Market

Opinions differ concerning the cause of recent increases in black market activity, although subsidies and smuggling are often cited a primary factors. According to General Ahmed Mewafy, Assistant to the Minister of Supply and Interior Trade, the Egyptian government subsidizes petroleum products at a cost of approximately 114 billion Egyptian pounds per year. Of this, approximately 48 billion pounds are allocated for diesel subsidies. Government officials have continually justified energy subsidies as a means to help the disadvantaged and avoid increased political instability. However, calls for subsidy reduction have grown louder as the Egyptian economy continues to decline amidst faltering tourism, rising inflation, and currency devaluation.

Subsidies play a large role in the black market as dealers can obtain diesel at highly subsidized prices and illegally smuggle supplies across borders to make substantial profit. Countries such as Turkey and Jordan are often recipients of these black market supplies. The Gaza Strip is another big recipient. Gaza's proximity to Egypt, in addition to their limited diesel supplies results in an enticing and consistently profitable option for black market dealers. The amount of across-border smuggling is so high that dealers often have standing arrangements with petrol stations here in Egypt to consistently obtain subsidized diesel. "There are many people who benefit from the difference in the market price and the subsidized price creating a profit for them," explains Eid Rashad Abdel Qader, Assistant Professor of Economics at Ain Shams University in Cairo.

General Ahmed Mowafy , Assistant to the Minister of Supply and Interior Trade

A lack of regulation and standardization within the distribution process creates the opportunity for corruption and increased black market activity. The high degree of variance in the distribution of diesel amongst petrol stations leaves some stations with large quantities of fuel and others empty. The disparity provides an opportunity for individuals to manipulate quantities in order to set aside large quantities for black market sale. For example. supply trucks can be loaded with 800 liters of diesel yet only record 100 liters. Corrupt petrol station owners and black market dealers can then make huge profits when they sell the unreported diesel on the black market.

Inconsistent distribution and lack of public information about supply further creates opportunities for corruption, albeit on a smaller scale. Ambiguity concerning fuel supplies inevitably results in rumors concerning impending fuel shortages. Such an environment contributes to huge lines for small amounts of diesel. When rumors of a shortage spread, drivers rush to gas stations and exhaust the supply within a few hours. Once the stations run out drivers will continue to wait in long lines for hours until more diesel is delivered. Drivers will often circumvent the line by bribing gas station attendants, who use the opportunity to supplement meager wages. Many times drivers are told they will not have access to any fuel supplies unless a bribe is given.

Fake diesel also plays a role in black market activity. Fake diesel is comprised of fuel and water, a mix sold by black market dealers as legitimate diesel. The mix, while highly profitable, is extremely harmful to engines and fuel tanks. Mostafa El Naggar, a bus driver in El Rehab complained, "From the black market, everything is mixed with water so it is not totally a pure diesel fuel." Damage stemming from the usage of fake diesel in cars and microbuses can range from 1000 to 2000 pounds in order to fix the motors. Mohamed Ragheb, a microbus driver in Nasr City commented "I got tired from the black market, I pay double the price and I discover the fuel is mixed with water, I couldn't afford fixing the motor last month."

Recent Cases

According to internal documents from the Ministry of Supply and Interior Trade over 2,000 black market cases were reported from the period of October 2012 to February 2013. These cases involve approximately 306,373,205 liters of petroleum products. Examples of these are two Misr Petroleum stations, located in Kafr El-Sheikh and Giza that sold thousands of liters of diesel fuel on the black market. The inspection team found that the Kafr El-Sheikh gas station sold around 252,000 liters of diesel and 96,000 of gasoline on the black market over six months. While the other station in Giza sold 20,000 liters of gasoline and 23,000 liters of diesel over the same period. Charges were filed in both cases.

The Supply and Investigation Police (a special branch of the police charged with ensuring that petroleum products are sold to the public at the official price) documented several reports of price gouging on behalf of Oil Libya gas stations located in the Helwan district. The allegations concerned 447 liters of diesel fuel sold at drastically inflated prices. Samy El-Derwy, owner of two Oil Libya gas stations, spoke to Egypt Oil and Gas concerning his pending case with the Police of Supply Investigations. He stated that the police went to one of El-Derwy's stations and documented the absence of a Record 21 (the official document for the sold amounts of petroleum products at the gas station). Charges were filed against El-Derwy claiming that he had intentionally hidden the document in order to sell a portion of the diesel to the black market. El Derwy denied the allegations stating, "The police went to the station at 12 am, the station's safe was closed…we can't keep such important files outside the safe."

On November 28th 2012 the Egyptian General Petroleum Corporation (EGPC) held a meeting with representatives from the Supply and Interior Trade Ministry and the Interior Ministry to discuss the legitimacy of charges against eleven petroleum companies, including Oil Libya. As a result of the meeting several stations were given a three-month probationary period in which the distribution process would be closely monitored. On December 17th officials at EGPC held an additional meeting to assess the processes and mechanisms currently utilized for distribution. During this meeting, charges against El Derwy were dismissed pending resolution of the distribution issue by the courts.

Police also confiscated 416,000 liters of diesel intended for the black market from Caltex Gas stations located on the Cairo/Suez Desert Road during the period of October 2012 to February 2013.

Ministry officials suspected black market activity after noticing huge disparities between allocated and reported diesel. The police believe the owner sold 204,500 liters of subsidized diesel on the black market. According to the internal documents, a similar case occurred in the El-Sharqiyah Governorate where 52,000 liters of subsidized diesel was collected by the owner of Energy Gas Station and resold on the black market.

In addition to inflated prices, the black market hinders the legitimate sale of diesel as distributors have perverse incentive to hoard supplies. Manipulating and holding diesel supplies affords corrupt distributors the opportunity to maximize profit by selling subsidizediesel on the black market at the inflated price. This hoarding mentality significantly contributes to perceived and actual supply shortages. In the Qalyubiya district police confiscated 32,000 liters of diesel intended for the black market. The investigation proved that the owner of Esso Gas refused to sell diesel to the public claiming that the station ran out of diesel. Similarly, police also charged the owner of a Misr Petroleum station on the Cairo/Alexandria Desert Road of illegally managing his station by refusing to sell the diesel to the public. Upon further investigation the police found around 50,000 liters of diesel presumably also intended for the black market.

Black Market Exacerbates Poverty

The Central Agency for Public Mobilization and Statistics estimated that in 2010/2011 over 25 percent of the Egyptian population fell at or below the poverty line. Amidst declining economic conditions of inflation and currency devaluation, estimates for 2012 are likely to be worse. The black market for energy products substantially factors into this equation. The black market problem increasingly affects the lower socioeconomic classes that are reliant on subsidized diesel to function in a basic capacity. A microbus driver Mostafa Metwally stated, "I wait in the lines until the next day. Sometimes I can fill my pumps completely or half of the quantity I need. I had to pay double the price to get what I need." Ahmed Ataya, another microbus driver, complains about the fuel crisis as he is forced to wait many hours just to get diesel. "I finish my work at 11 p.m., but the owner of the microbus requires me to get fuel. I usually keep touring fuel stations till 7 a.m. to be able to have full tanks." Omar Osman, a taxi driver commented on the personal impact that the black market for fuel has on his life stating, "I am a father of five children, every girl has to have thirty pounds for the transportation, so how can we survive with price increases when we can't get the diesel at official prices." Inflated black market prices continue to exacerbate poverty as higher diesel prices equal higher fees for buses, cabs, and microbuses. Several Nasr City bus drivers stated, "We increased the bus tickets to compensate for the price of black market fuel." Amr Shawky a service employee and regular commuter stated, "Since the drivers raised the bus tickets, I had to pay 300 pounds more for transportation. I can't afford that every month."

Alaa Hafez, owner of a gas station in Nasr City, complained that the discrepancy between the diesel sold in the black market and the legitimate one negatively affects the stations, as many people are forced to buy from the black market when legitimate stations run out. "When will we stop suffering from (the) black market? Officials must work hard to solve this problem," Alaa stated. Despite obvious corruption and inflated prices, the absence of alternatives to public transportation leaves consumers and motorists few options.

Current Efforts To Curtail Black Market Activity

Professor Abdel Qader expressed optimism that black market activity could be curtailed if the state implements laws and regulations to end the black market problem. General Mowafy echoed this point, stating that uncertainty characterized by widespread political and socioeconomic instability created increased opportunity for black market activity. He expressed a need for a regulatory body to govern supply and distribution channels. While the onus for reform rests firmly on the shoulders of the government, Mowafy stated that a complete disregard for the law also contributes to increased black market activity. He stated, "Some citizens don't respect the country's regulations because they only look out for their own benefits." Now the question remains, how does Egypt overcome this problem?

Suggested Solutions

General Mowafy emphasized that the Ministry of Supply and Interior Trade currently employs inspections teams to regulate the fuel market. In addition to these teams, the monitoring and distribution sector of the Ministry of Petroleum has prepared regular reports on black market activity.

The Supreme Committee for Fuel in Egypt, of which General Mowafy is a member, recently discussed how to redistribute petroleum products within Egypt. The committee made up of members from eight different ministries, prepared a comprehensive study of production and consumption of petroleum products in Egypt. They also have been working for the last four months to analyze the total number of gas stations in Egypt, in an effort to ensure the legal and legitimate delivery of petroleum products to distribution outlets, as well as commercial and industrial companies. The committee, in cooperation with the inspection team of the Ministry of Supply and the Ministry of Interior, is working to secure the distribution channels and processes.

General Mowafy told Egypt Oil and Gas that the Ministry of the Interior Trade and Supply would work with the EGPC to prepare a system to monitor the distribution to help eliminate black market activity. It was also suggested that the increased presence of police officers at gas stations would help ensure legitimate transportation and distribution. Mowafy also emphasized the government is working on long-term plans to equip distribution vehicles with GPS monitors to track vehicles once they leave EGPC. The Petroleum Minister Osama Kamal emphasized the importance of implementing strict regulations to combat rising black market activity. The Minister declared to Egyptian TV Channel One that black market activity is punishable by three to five years of imprisonment and fines of 100,000 Egyptian Pounds.

In addition to stricter fines, the Minister also called for increased efforts towards energy conservation in order to combat declining economic conditions as well as combat the rising influence of the black market. General Mowafy believes that "The problem in Egypt is the total reliance on road transport and that's why we have started to also use railway transport." The Ministry of Supply and Interior Trade is working on the implementation of alternative methods of transport and distribution as current methods are easily manipulated.

In further efforts to offset the crisis, the government has appointed official monitors at gas stations in popular areas like Cairo and Giza. In addition, the Petroleum Minister Osama Kamal, pointed out in a statement to Ahram Online that the Ministry has recently prepared short and long term plans to address congestion in front of fuel stations.

Sherif Hadara, head of EGPC, told Ahram Online that he sees three options for subsidies reduction. "The first is a gradual reduction of 10 per cent annually across the board; the second is to limit subsidies to certain socio-economic categories; and the third is to replace subsidies with cash-in-hand grants." He added that while he is responsible for the initiative's technical aspects, the issue of ending diesel subsidies was a political question that fell on the petroleum ministry.

According to the Minister of Petroleum there are only two basic solutions to end the black market trade of diesel. The first one is to use a Smart Card system in which individuals will receive a certain allotment of subsidized diesel; excess of this amount would be charged at international market prices. The second method is to gradually remove diesel subsidies simultaneous to increased government assistance in the realms of job creation, education, and transportation. However, on February 12, 2013 the Minister of Petroleum stated that the government would delay a plan to ration subsidized fuel, initially slated for April, by up to three months. "The use of smart cards for making petroleum purchases will be implemented sometime between April and July," Kamal told Trade Online.

While subsidies reduction is a broader economic issue with implication far beyond black market activity, some experts suggest a common sense approach to subsidy reduction as a means to combat the black market. Abdel Qader argues, "the government should subsidize those [individuals and companies] that are in need… petro-chemicals companies and others do not deserve to be subsidized by the government." Either way, all parties agree that something must be done. Diesel subsidies currently cost the state approximately LE50 billion (nearly $7 billion) annually, accounting for more than 40 % of total energy subsidies. With the current state of Egypt's economic affairs, the country can no longer afford to not do anything.

Conclusion

As lines at gas stations continue to grow many are asking if Egypt is experiencing an energy crisis. While not everyone may agree that the crisis has come, no one can deny that Egypt's fuel subsidy problem is getting worse.

The government's heavy diesel subsidies have created a black market that is thwarting the legitimate market and costing the government billions of pounds every year. The government is quickly running out of money and can no longer heavily subsidize fuel like it once did. With gas shortages increasing the price of diesel, many in the country's lower socioeconomic classes are struggling to pay for transportation.

Measures to improve distribution, regulation and standardization of the diesel must be implemented. Whether it is a Smart Card system or a 10 % cut in subsidies across the board something needs to be done in terms of reducing subsidies. As for stemming the flow of diesel to the black market greater security, information and regulation must be improved. Without regulation, gas stations and black market dealers will continue to steal subsidized diesel and make a profit at the expense of the people. Failing this, it will only be a matter of time before Egypt finds itself in a catastrophic social, economic, and energy based crisis.

Subsidies, Rationality, and Revolution:
An Alternative Perspective

Economists and businessmen are generally expected to exhibit a blind faith in the virtues of individual self-interest and the absence of government intervention. However, such faith also often blinds policy makers and other free market advocates to the reality that there often exist very reasoned, politically necessary, and more foresighted economic justifications for petroleum subsidization or at least an exceptionally long period of time over which these subsidies might be reduced. Egypt's economic and political history since 2005, and the experience of the global food crisis in 2007/2008, efficiently serve as the background for such an argument and yield a policy prescription that focuses rightly upon proper timing as an element of any future action in the sphere of subsidies.

By John Pastrikos

Food, Fuel, and Economic Idealism

Subsidization has obviously been an element of Egyptian political reality since at least the bread riots of 1977. More recently, the issue of subsidies again rose to prominence between 2005 and 2007 with the focus again squarely upon the issue of food. While today petroleum is at the center of our discussion, it is nonetheless important to look toward the past in order to gain insight into our present difficulties. Most importantly, one must recognize that the trend in global commodity prices, and indeed many commodity price index levels, are today more closely resembling 2007 and early 2008 than the trends and levels extant during the depths of the financial crisis.

Of course, the period immediately preceding the global financial crisis saw Egyptian subsidy costs rising in the face of dramatically increasing international prices. Then as now, rather monochromatic economic concerns resulted in calls for liberalization largely emanating from local research fora, university classrooms, and the international financial sector. The misguided sense at the time seemed to be that the domestic and international economic realities of growth and expansion could be projected infinitely into the future. I am reminded of one particular incident during which I met a prominent local economist and casually noted over dinner that, while economic concerns were important, further liberalization was neither socially nor politically affordable for Egypt. I was relatively new to the country and was quite surprised when this person literally turned red and began boorishly shouting the reasons I was incorrect. I relayed this story weeks later to an Egyptian colleague and noted how the reaction surprised me… that it was, "as though I had insulted his mother's virtue." My colleague's response was to simply laugh and state, "You did much worse than that, you insulted his ideology." This single incident still highlights for me the degree to which Egyptian political realities and idealized economic notions can sometimes be completely divergent. I believe we are experiencing the same sort of disconnect today.

Of course, such economic fundamentalism in favor of fiscal responsibility is understandable as, on the eve of the financial crisis, WTI and Brent crude oil were selling for over $145 per barrel (up from $60 just two years earlier) and there was obviously a great deal of ink wrongly spilled about the contemporary existence of "peak oil". Simultaneously, wheat was selling on the international market for nearly $450 per metric ton (up from $175 just two years earlier). At the time, Egypt was also importing over seven million tons of wheat per year to feed its food subsidy system and that nearly 3.5 billion dollar imported wheat bill in 2007 is roughly the inflation adjusted equivalent of the 4.6 billion dollar petroleum subsidy bill incurred in 2012. Given that, it is no wonder that many Egyptian policy makers are repeating the calls for liberalization today.

Peak Oil, Peak Wheat, and Subsidy Justifications

Unlike today however, in the years leading up to 2008, the global economic system was surging forward, a great many commodities had been effectively "financialized", and Egyptian growth rates were above 7% allowing the country to serve as what many perceived to be an idealized model for the region and indeed for the developing world. Some assumed that the miracle of "liberalization" and "privatization" had brought economic growth and mistakenly perceived this as yielding development or at least the immediate promise of it. For a great many, the decision to therefore reduce or eliminate subsidies was an easy one as the price of their maintenance increased and Egyptian growth could apparently justify the increased costs to the population. The counterargument however, was to be found in the reality that average Egyptians, in the years leading up to 2008, had not experienced the benefits of extant political and economic systems. In fact, the speculative fervor being driven by "financialized" commodities had all but guaranteed that welfare in the newly liberalized Egyptian economy could not keep up with rising international prices.

In the years immediately leading up to the financial crisis, inflation in Egypt oscillated between an apparently moderate 2.5% and 8.8% but food price inflation in the same years, spurred by global commodity speculation, was spiking at nearly 20% annually. Real incomes for the vast majority had been collapsing, as wages were slow to adjust upward to price changes. Even slightly reducing subsidies, in an environment of such dramatically rising household costs, would have been catastrophic absent a more just and egalitarian distribution of income and wealth. Indeed, the events of January 25 highlight the reality that even the presence of subsidies could not overwhelm the inequities that existed within Egypt at the time.

At its foundation, economically inefficient subsidization was and is made necessary by the relatively stagnant nominal wages paid to the vast majority of workers ensuring the collapse of real wages during a speculatively driven global expansion. Earlier evidence of this collapse is to be found in the 2008 Mahalla riots and the broader general strike on April 6 of that year. Somewhat ironically, at roughly the same time Hosni Mubarak's police forces were repressing wages in the Nile Delta, "free market" economists were calling for subsidy elimination that, if enacted wholesale, would have almost certainly ended Mubarak's regime roughly two years sooner than its actual demise. What's more, one might in fact make the argument that, even with subsidization, the financial crisis actually offered Mubarak what amounted to a two year reprieve, essentially a historically rare "second chance" to repair domestic inequities and economic inefficiencies during a period of lower costs.

Present Obstacles and Policy Imperatives

Given the above political, social, and economic background, it is important to realize that Egypt faces a petroleum subsidy crisis similar to that faced with food subsidies in the pre-crisis era. While both subsidy spheres have been unpopular politically, and it is wise to note that both are expensive and also irrational according to economic theory textbooks, both are also simultaneously necessary given current economic and social conditions. In fact, the rationale to maintain some fuel subsidies now is the same as the rationale used to maintain food subsidies in 2007. Wholesale liberalization is quite simply not an economic luxury that Egypt can politically or socially afford.

Practically speaking, the time to reduce subsidies is not when they are the most costly to the government budget. In fact, this is actually the time when subsidies are most necessary. The "sweet spot" during which the Egyptian government might have targeted subsidies for reduction was neither immediately before the financial crisis nor presently but at the depths of the crisis after global commodity prices had plummeted. Even then however, concomitant wage flexibility would have been a necessary complement to subsidy reduction.

We have, in short, long since passed the time during which Egypt's economic problems can be easily remedied. Hosni Mubarak passed up his "second chance" between 2008 and 2010 and global commodity markets have long since started to recover as investors divert a percentage of available cheap money from equities and most government debt in favor of more tangible assets. Four years ago would have been the time to liberalize labor markets, allow wages to rise dramatically, and simultaneously (on an announced and credible schedule) allow subsidies to evaporate over a period of months or even years. This may have even been socially and politically acceptable when the cost to consumers and wage payers were at their minimum as determined by lower international oil and other commodity prices. These changes might also have taken place over time such that, as international prices eventually increased, the perceived individual costs would have been gradual and much less painful than the economic shock therapy being proposed presently. As a result of this missed opportunity, Egypt is now better off politically and economically to simply endure currency devaluation.

Egypt's present subsidization bill of $22 billion is obviously being paid in a depreciating currency as the hopes for an IMF loan could potentially disappear into a background of political and social unrest. Simultaneously that depreciating currency has created inflation that could be nearly as socially damaging as subsidy elimination. Ironically, the current foreign exchange issues facing Egypt also effectively reduce the possibility of subsidy elimination as the prices for all imported goods and services are rising and increasing the social need for some refuge in the spheres of cheaper fuel and food. However, the experienced real wage decreases are much less immediately perceived by the population over time than even a gradual elimination of subsidies might be. Further, the Morsi government has also exhibited great wisdom to sidestep accountability for this rather passive policy of devaluation relative to the degree to which they would be strongly held accountable if adopting a policy of overt subsidy elimination. Of course, devaluation will still hurt but almost certainly not as much as subsidy elimination and certainly not as immediately.

Further, the above-described action will ensure a more egalitarian distribution of the costs associated with our return to economic equilibrium. Everyone will pay more for necessities and luxuries as the pound inches toward 7.00 or even 7.50 to the US dollar. To eliminate subsidies absent the unlikely existence of labor market liberalization would simply places the entire burden of that return to equilibrium upon the shoulders of those most unable to bear the cost. I sincerely doubt that Egypt can afford the short run social and political instability caused by such a policy. What's more, if we are to be concerned with foreign investment in the petroleum sector, I firmly believe that it is easier for investors to contract and act upon the relatively calculable expectation of even moderate currency devaluation over time than to act upon the ethereal likelihood of an undetermined level of social and political unrest resulting from subsidy elimination.

Conclusion

As described above, and in spite of a lingering and persistent financial crisis, there exists an equally persistent justification for prolonging the presence of subsidies in Egypt. This is largely due to the fact that the current phase of our economic crisis is not characterized by falling prices internationally but prices that have, in spite of broader stagnation, risen rather dramatically since 2008. In this present case, Egypt can learn something quite valuable from southern Europe: that fiscal austerity may appear a logical solution on paper but the long-term economic, social, and political costs are great. In short, Egypt has the luxury of devaluation that Greece would very likely prefer.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Egypt Two Years Later

On the second anniversary of the 2011 revolution, Egypt appears to be experiencing a bit of déjà vu. Videos of a protestor stripped and beaten, a state of emergency declared by the president, and protestors chanting, "the people want to bring down the regime" are obviously similar to events that occurred two years ago. While Morsi's name has replaced Mubarak's within protestor's chants to take down the president, it is unclear if the masses have the stamina for another revolution. Many, disillusioned by bickering politicians and the broken promises of the Muslim Brotherhood, have lost their optimism.

By Tatianna Duran

When Mubarak resigned on February 11, 2011, hope was high that change would bring better opportunities and a better life for many Egyptians. Unfortunately, most are still waiting for that change. Protestors are still dying on the streets, tourists have yet to come back to Egypt, and partisanship and resentment have both blossomed within the political sphere. The absence of a stable and strong government has left the Egyptian economy gasping for air as it struggles to pay its subsidy bill along with other debts it can no longer afford.

This January, Egypt experienced protests and more violence on the anniversary of the revolution. On top of the normal anniversary celebrations and marches, 21 football fans in Port Said were sentenced to death for their part in deadly football riot that left 72 people dead in February 2012. After the decision was read, people swarmed the prison in Port Said as family members of the convicted soccer fans attempted to break their family members out. The police opened fire and killed more than 30 people. Then, again at the funerals of the dead, police opened fire killing even more. Protestors set fire to buildings, stopped trains, and caused havoc to such an extent that Morsi called for a one-month state of emergency and implemented a curfew in the cities of Port Said, Suez, and Ismailia. Ironically, the emergency laws were one of the most despised tools from the Mubarak-era and many were dejected to see the identical tactic deployed by Morsi less than nine months into his presidency.

Goodbye to the Dictator?

After Mubarak stepped down in February 2011 the Supreme Council of Armed Forces (SCAF) assumed power on the premise that they would turn over the country as soon as a new parliament and president were elected and a new constitution written.

Less than a week after SCAF had taken power they proposed 9 amendments to the constitution that set a time frame for the new government. The plan called for electing Parliament first, which would then be followed by the formation of the Constituent Assembly, who would be in charge of writing the new constitution. Once the constitution was approved, a president would be elected.

The amendments, put to vote in March 2011, were approved overwhelmingly by 77% of voters. Initially the Muslim Brotherhood announced they would only run for a third of the seats…but soon changed their mind. In the December 2011- January 2012 elections they won 47% of the seats. In a more surprising twist, the Salfist Parties, who obviously represent a much more conservative platform than the Brotherhood, won nearly one quarter of the seats (356 out of 508 seats). The secular parties, Al Wadf and the Egyptian Bloc, secured a meager 72 seats. Perhaps not surprisingly, the more conservative Islamist platform did especially well in the governorates outside of Cairo and Alexandria. Many attribute the Muslim Brotherhood's success to their unmistakable organization and their extensive network of social services providing health, education, and welfare benefits the government has been previously unable to provide.

Unfortunately, the newly elected Parliament quickly began to bicker and spiral into partisan politics. The hope that a new parliament would bring increased stability and rapid change was optimistic at best. On February 1, 2012 the aforementioned riot at a football match in Port Said left 77 people dead in one of the most violent soccer riots the world had ever seen. A week later, in Cairo the government arrested 43 people who worked for non-governmental organizations (NGOs) over disputed funding. Twenty-seven of these people were foreigners.

SCAF, in an effort to wrestle power away from bickering assembly members announced in November 2011 that they were going to preserve their power even after a new government and constitution were in place. They stated that they would assume the responsibility to maintain the unity of the constitution in addition to their supervision of national security. The people obviously weren't happy and protestors took to the streets. Trying to still the violence they had caused, SCAF announced that the Presidential elections would take place in June 2012, several months earlier that expected.

False Hope for a Constitution

In March 2011, Parliament took the first step towards a new constitution by forming a 100-member assembly in charge with drafting a new constitution. The group quickly fell apart as many liberal groups accused the Freedom and Justice Party (FJP) of trying to stack the assembly in their favor, and not having a fair representation of minorities, including women and Christians. Thirty members of the assembly resigned from the group effectively ending its chances of forming a draft constitution. A year later in March of 2012, a new assembly formed with 39 members from 10 different parties and 61 independents. However, in June 2012 the Supreme Constitutional Court ruled that Parliament, which had been elected in Dec 2011- Jan 2012, was formed unconstitutionally. SCAF subsequently disbanded Parliament and ended the new constitutional assembly. The dissolving of a Muslim Brotherhood dominated parliament likely had a strong impact upon presidential voting patterns to come.

Electing a President

Parliament was disbanded only days before Presidential elections were scheduled to take place in June 2012. Too much surprise the elections went rather smoothly, with the Carter Center announcing that they did not observe any major voter fraud.

The Muslim Brotherhood initially promised not to run a presidential candidate, but as with their parliamentary promises, they did not keep their word. When the elections board disqualified their first choice, Khairat al Shater, Mohamed Mosri became the FJP's leading man. Morsi went on to win the election by narrowly beating Ahmed Shafiq, the last prime minister under Mubarak.

President Morsi and a New Constitution

In President Morsi's acceptance speech he promised to calm the fears of the minorities, to deliver a new constitution, a new parliament and to bring Egypt back from the brink of economic collapse. In order to gain approval from the secularists, Morsi resigned from the Muslim Brotherhood Party and annulled the constitutional amendments that SCAF passed in March. However, Morsi's first nine months have been nowhere near easy. Egypt's democratic transformation has been complicated and often violent. The political scene is a seemingly endless game of tug of war between the Islamists, the military and the liberal activists.

In the last nine months, Morsi consolidated presidential power. In August, following an attack on a border check point in the Sinai that left 16 dead, Morsi shook up the military ranks. Field Marshall Tantawi and the army's chief of staff Sami Anan were among the senior military leaders who were fired. Many saw this as a back room deal with the military that allowed Morsi to look tough against the military while not actually alienating the majority of the military.

On November 22nd of last year, fresh off his success from brokering a cease-fire between Gaza and Israel, Morsi took the controversial step of issuing a constitutional decree protecting the upper house of parliament and Constituent Assembly from court dissolutions. He also fired the prosecutor general and unilaterally appointed a new one. This decree was met with outrage and protestors stormed the streets. This time they swarmed to the Presidential Palace in northern Cairo. Morsi tried to calm nerves by backtracking and annulling his decree less than two weeks later. However, he refused to reschedule the referendum on the new constitution, set for December 15th. This decree led to mass resignations and increased violence in the streets.

Amid the chaos, the Constituent Assembly frantically worked to finish the constitution. Given this, secularists and moderates alike worried that the constitution was rushed and did not protect the rights of the country's minorities. In spite of this, a referendum split over two Saturdays (Dec 15th, 22nd) passed the new constitution with 64% of the vote. However, less than a third of all Egyptians voted for the constitution and in Cairo the majority voted no.

Economic Worries

In addition to the above, as unemployment reached 13% last month, Egypt is simultaneously facing an economic crisis. Foreign currency reserves are critically low at $13.6 billion. The pound slipped to 6.71 compared to the dollar and tourists have yet to return to Egypt in big numbers. Further, the government owes untold billions of dollars to foreign oil companies.

The government and the IMF have also been in negotiations for more than a year over a $4.8 billion loan the country desperately needs. In November, Egypt was granted preliminary approval for the loan but due to the unstable political scene, and recurring violence, the loan has been put on indefinite hold. Loan stipulations dictate Egypt must enact a series of austerity measures that will be decisively unpopular with the masses and perhaps prompt further instability or even deeper economic stagnation.

Mosri attempted to secretly enact some of these measures on December 6th 2012. When the press found out about this on December 9th, it took less than 12 hours before Morsi retracted the plan and put it on hold until further dialogue had taken place. Of course, austerity measures are seen as very unpopular because many think they disproportionately affect the poor. The last time the government tried to cut food subsidies was in 1977 and it led to countrywide bread riots. Unfortunately, many of the subsidized goods Egypt is importing are basic necessities such as wheat and gasoline.

Earlier this month the government announced that they had finished revising an economic reform plan based on dialogue that had taken place with different interest groups. However, the government has yet to announce when negotiations with the IMF would begin again. If the Egyptian government cannot set up a plan to enact the austerity measures in an organized manner and secure the IMF loan, the Egyptian people will be left hungry and frustrated as their currency further depreciates and yields uncontrolled price increases.

The government obviously needs to set up and follow through with a plan to save the country from economic collapse. When president Morsi and the Muslim Brotherhood took power they promised security, a better economy, and a better life for Egyptians. If they don't make the hard decisions the country needs, they will be sacrificing the future of their citizens for short-term and immediate political gains. It remains to be seen however, whether or not the Egyptian people are prepared to endure the sacrifices made necessary by such decisions.

There is much potential in the people and the resources of this country. However in the absence of an effective government to remedy past mistakes, future progress will remain unlikely and Egypt's déjà vu will get worse.

Interview with Haytham Ataya

Chief Operating Officer of Vega Petroleum Limited

Can you tell us more about Vega Petroleum limited?

Vega, established in 2011, is a privately owned exploration and production company. Our founders, Mr. Juma Saif Rashid Bin Bakhit and Mr. Kamal Ataya, collectively bring more than 35 years of experience within the industry

Our philosophy revolves around the notion that successful energy exploration involves expertise, knowledge and experience, as well as the courage to relentlessly pursue one of the world's most vital resources. This is Vega. Named for one of the brightest stars in the night sky, we illuminate the never-ending search for raw materials and resources. We are inspired by the element of possibility that energy provides to people everywhere. Going beyond the status quo, we grow through impact-based discoveries, committing our own energy to find the energy the world needs.

What is the vision and mission of Vega?

The energy industry is dynamic, and Vega continually strives to sustainably, efficiently and profitably meet increasing global energy needs. Vega brings experience, knowledge and technological expertise to the energy sector. We use these attributes, combined with a sophisticated network of contacts, to optimally utilize existing resources and explore for new resources.

Our vision is to achieve sustainable growth through innovative discovery and resource optimization. We seek to be recognized as the leading privately owned oil and gas company and provider of cleaner and more efficient energy. We strive to be at the forefront of regional exploration and development, while simultaneously achieving the investment goals of our valued shareholders. Our mission revolves around our commitment to continually utilize our energy to find new energy. Our brand icon, the continuum, is a reflection of our commitment to infinite and never-ending growth, innovation and development.

What is Vega's strategy?

Across the energy chain, Vega utilizes experience and expertise to navigate project complexities and turn intention into implementation. Vega utilizes determination and perseverance to push the bounds of what is possible in an effort to continually strive for innovation and development through our varied activities.

As a privately owned company, our portfolio is comprised of 70 percent mature field assets with proven production, and 30 percent of high potential exploration. We achieve foundational sustainability through our producing assets and we achieve growth and bold development through high potential exploration strategies.

We will continually use our superior technical expertise to explore, extract and deliver energy that was once beyond reach.

What are your goals for the Ras El Ush Field?

Vega selectively chose the REU concession to be our initial footprint in the industry. We feel that the REU will showcase our expertise across the energy chain. Since October 31 2012, when we received the operatorship of the Gebel El Zeit onshore and offshore area in the Gulf of Suez, we have committed energy and optimism to the existing and future potential of this concession area.

Our primary goal is higher production actualized in a safe, sustainable and efficient manner. Vega will utilize an operationally integrated approach that adheres to the highest scientific and technical standards in an effort to efficiently increase production output of the Ras El Ush Field. Specifically, increased production will be achieved via the construction of a gas line to provide the required amount of gas for the artificial lift, along with work-over programs, and the application of pressure maintenance practices. We hope to achieve success in terms of exploration and drilling through this plan.

You are operational partners with PetroZeit in the concession. What are the benefits of this partnership, what strengths and experience does PetroZeit bring to the project?

PetroZeit is an established company with extensive infrastructure to accommodate production of 20,000 barrels of oil per day. Cooperatively, through knowledge transfer and exchange, we will utilize this infrastructure in order to increase productivity. Their involvement and technical expertise is critical to job execution, as well as increased innovation, growth and development of the concession.

In addition to our valued partnership with PetroZeit, I wish to extend sincere gratitude and appreciation to EGPC and Ganope for their support since we arrived in Egypt, through the deed assignment, and finally to the approval stage by the esteemed Minister of Petroleum Osama Kamal.

You have extensive experience in the service sector, how will this experience be an asset in your current position at Vega?

The service sector grants first hand experience in the field. My career with Schlumberger is the cornerstone of my technical field experience. The primary lesson I learned in my experience is: always do it right the first time. The experience provided strong foundational principles that have guided me through every step of my process.

VEGA Receives Regulatory Approval for Ras El Ush Field

Vega Petroleum Limited (VPL), a privately owned exploration and production company established in the British Virgin Islands with its principals from the Middle East, announced that it has successfully received approval for working interest and operatorship in Gebel El Zeit Onshore & Offshore Concession from Canadian E&P Company, Dover Investment Ltd by Egyptian General Petroleum Corporation (EGPC).

Vega is the main stakeholder and operator of Gebel El Ziet Concession owning 82 percent of the concession rights. Gebel El Ziet Concession covers a total area of 9.31 square kilometers of one of Egypt's most prolific petroleum provinces. Gulf of Suez contributes 80 percent of Egypt's reserves and more than 75 percent of its production.

The field (Ras El Ush) has existing production with substantial development and rich exploration potential. This unique potential of the field will serve as a solid platform for Vega to showcase its knowledge and skills across the energy cycle of production, development and exploration.

Petrozeit, a joint venture between Vega Petroleum Limited & EGPC, undertakes operation of the Ras El Ush field.

Kamal Ataya, Chief Executive Officer of Vega Petroleum Limited, said: "This award is a key operational milestone for Vega. It demonstrates Vega's commitment and capability to a long-term presence in Egypt. The acquisition underlines our strategic goal of investing in producing assets that enhance the company's production base, while indicating a long-term development growth plan for more discoveries. We are committed to maximizing shareholder returns by drawing on the brand equity of Vega, and with this operatorship, we are further strengthening our principle foundation for sustained business growth. We will continue to explore opportunities to seek and create oil reserves to meet the growing demand of energy."

Vega has grown organically, exploring opportunities through acquisitions, direct negotiations, and joint ventures with key local, regional, and international organizations while striving to create a solid foundation to pave the way for future alliances.

Since its inception in 2011, VPL has aimed to forge valuable relationships with local governments and oil companies in an effort to build long-lasting partnerships. Using some of the regions most trusted experts with over 30 years of experience in the industry, Vega aspires to encourage energy production, one collaboration at a time.

For more information visit www.vegapetroleum.com or email info@vega-etroleum.com.

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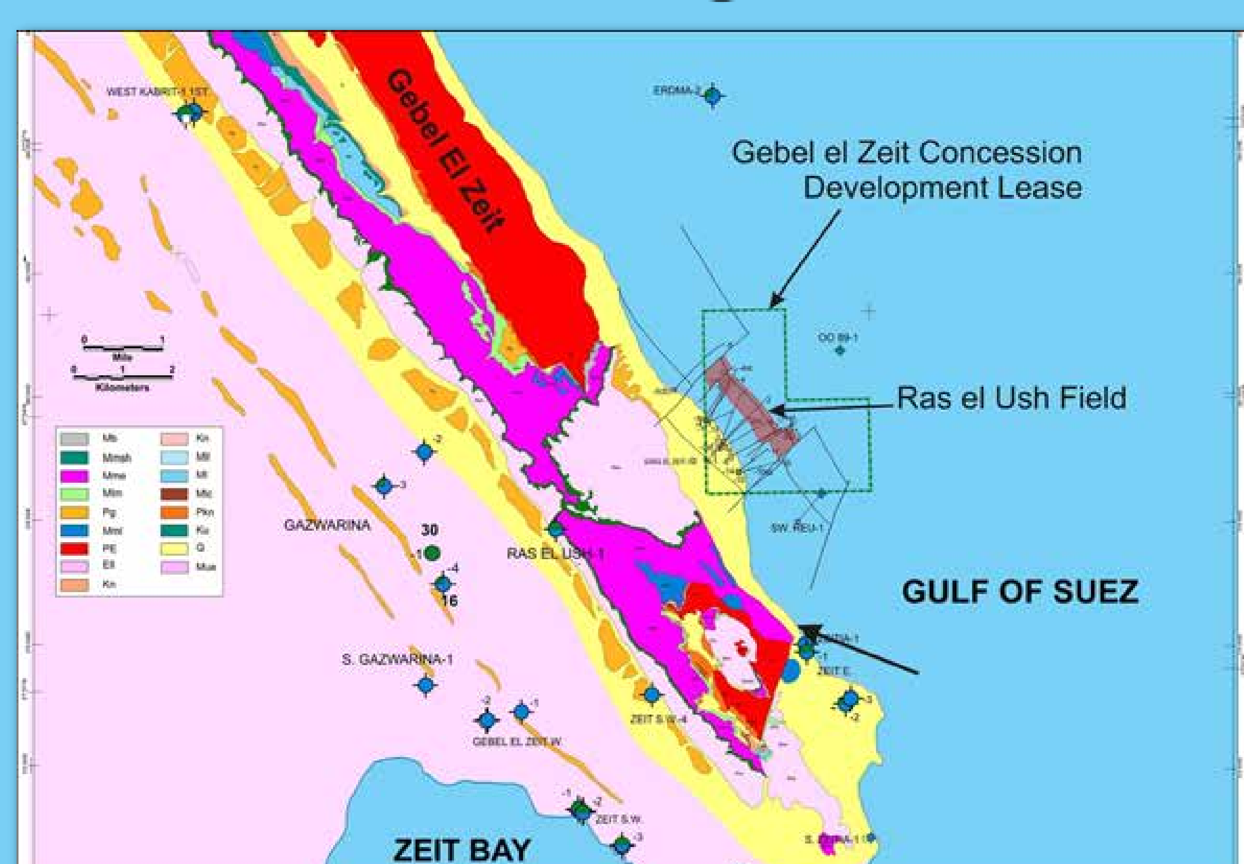


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PhPC East Nile Delta Phase 3

By Eng. Tharwat Abou Shady- PhpC›s - Operations General Manager

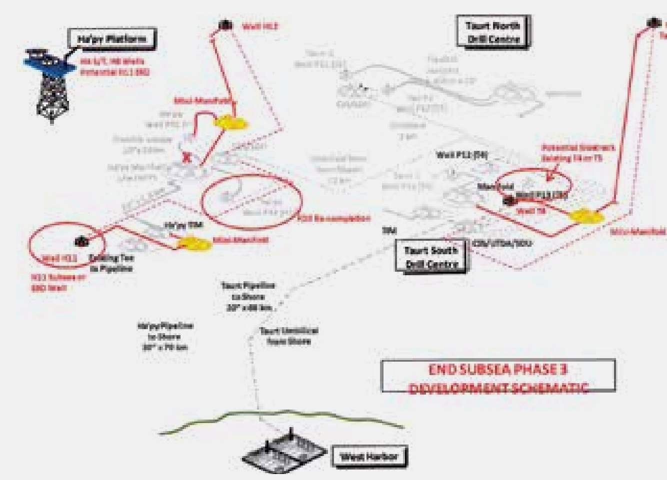
Summary

This work plan describes the governance agreement, contract strategy and organizational staffing plan for the appraisal phase of the East Nile Delta Phase 3 project team.

Pharonic Petroleum Company (PhPC) has identified several wells and associated facilities for utilization over a three-year period. A single task force will administratively coordinate the project in order to achieve optimum efficiency and coalescence amongst project team members and independent contractors. The unified administrative team will also produce scheduling and capex benefits. The wells identified for further study include:

1. New Ha'py 13 well on existing Ha'py platform
2. New Ha'py 15 well on existing Ha'py platform
3. New Ha'py H12 subsea well (appraised in 2012, completion 2014)
4. New Ha'py 11 subsea well
5. New Taurt North subsea well in North El Burg Concession
6. New Taurt 8 subsea well
7. Taurt 5 sidetrack (timeframe dependant on performance of T4 / T5)
8. H10 Recompletion

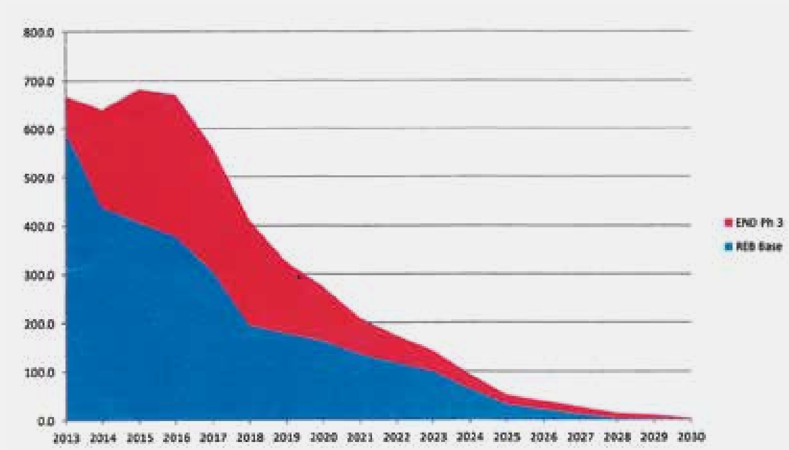
East Nile Delta Phase 3 Schematic



Development

The below graph demonstrates that the existing wells within the REB concession have begun a noticeable decline in rates of production. The integration of the wells that comprise the East Nile Delta Phase 3 project will increase overall production rates and rectify the production decline throughout West Harbour facilities through 2017.

REB Production Profile



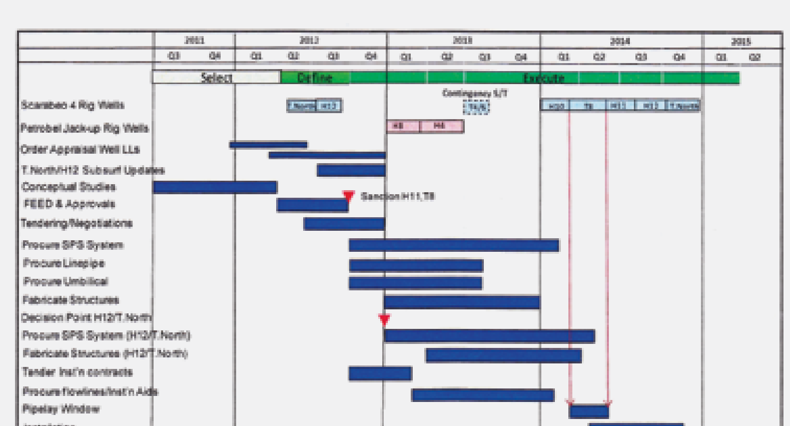
As the scheduling timetable demonstrates the East Nile Delta Phase 3 Project is current in the definition stage. However in order to meeting scheduling and production goals, a number of long lead approvals were ordered in December. Contracting, strategy and organizational studies are ongoing.

The PhPC Project Management System (PPMS) will form administrative governance to ensure the release of funds to PhPC to facilitate the beginning of work involving well planning and strategizing. Developments in this regard will put the project in a position to commence drilling and ordering necessary facilities and long lead items in 2012 / 2013.

After initial planning and logistical are complete, an administrative management team of shareholders, lead by PhPC, will be in place to ensure a smooth transition from conceptualization and planning to development and operational implementation. Coordination between major contractors and management to facilitate early approval of contracting stages is necessary to ensure attainment of required engineering equipment.

Depletion plans for both developments will be completed and frozen in accordance facilities scope and final depletion plan.

East Nile Delta Phase 3 Level 1 Schedule



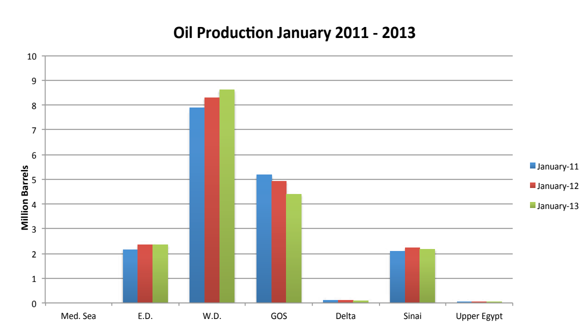
Egypt Statistics

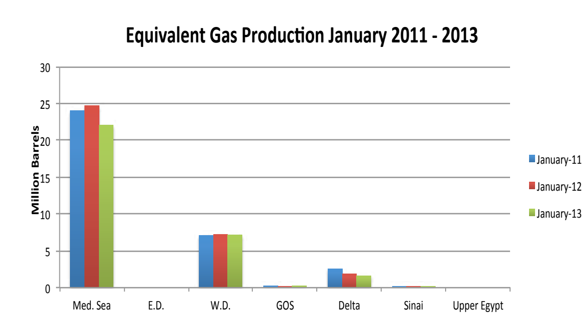
EGYPT OIL&GAS
RESEARCH & ANALYSIS

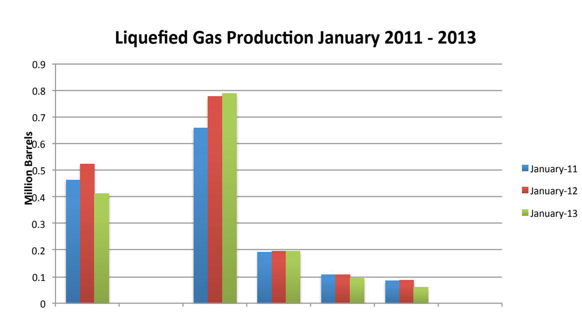
	Oil			Equivalent Gas			Condensate			Liquefied Gas		
	Barrel			Barrel			Barrel			Barrel		
	January-11	January-12	January-13	January-11	January-12	January-13	January-11	January-12	January-13	January-11	January-12	January-13
Med. Sea				24035000	24716071	22074107	1499406	1398330	1214914	462425	522218	411918
E.D.	2158699	2341192	2358012									
W.D.	7886169	8297080	8621185	7110000	7259464	7182143	1810903	1714723	1426752	657913	776060	788634
GOS	5181964	4927096	4390881	224821	193929	236071	73371	56524	63773	191106	195866	195150
Delta	101043	100053	81127	2556786	1870536	1613750	213460	174417	141816	106533	107570	94205
Sinai	2087036	2219457	2164438	28571	893	3929	38916	33740	30813	84261	86313	60409
Upper Egypt	23401	16889	11715									
Total	17438312	17901767	17627358	33955178	34040893	31110000	3636056	3377734	2878068	1502238	1688027	1550316

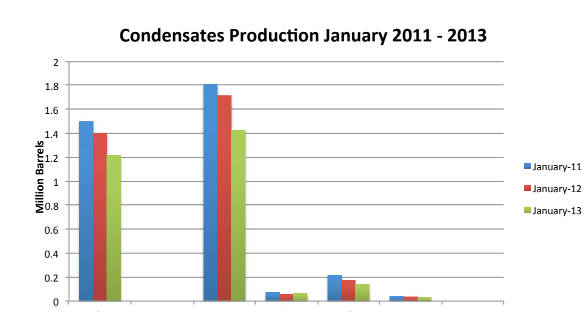
Table 1 Egypt Rig Count per Area February 2013

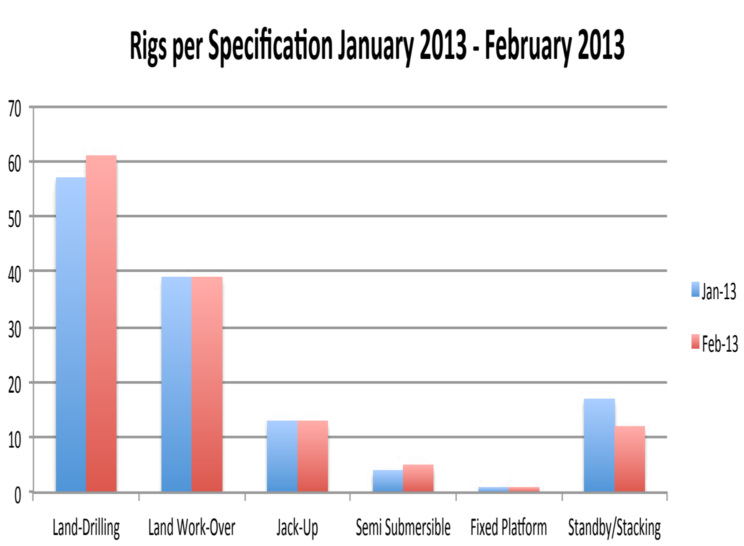
	RIG COUNT		
Area		Total	Percentage of Total Rigs
Gulf of Suez		10	8 %
Offshore	10		
Land			
Mediterranean Sea		9	8 %
Offshore	9		
Land			
Western Desert		74	62 %
Offshore			
Land	74		
Sinai		12	10 %
Offshore			
Land	12		
Eastern Desert		8	7 %
Offshore			
Land	8		
Delta		6	5 %
Offshore			
Land	6		
Total		119	100%

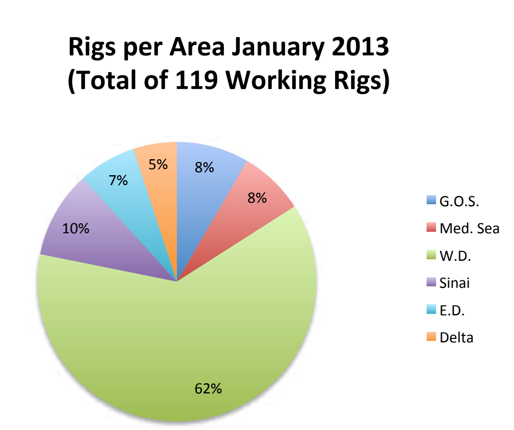


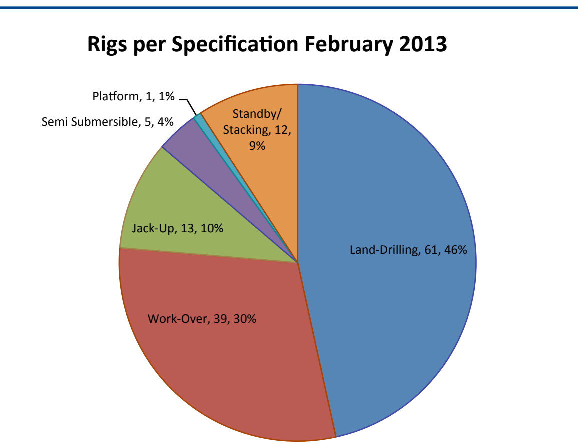


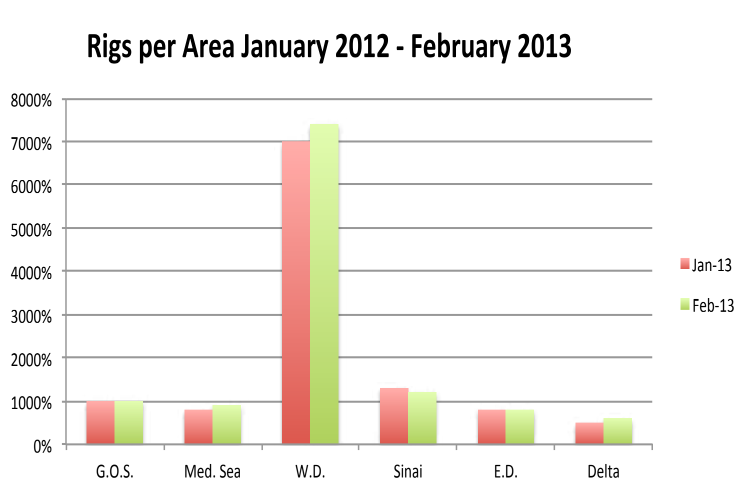


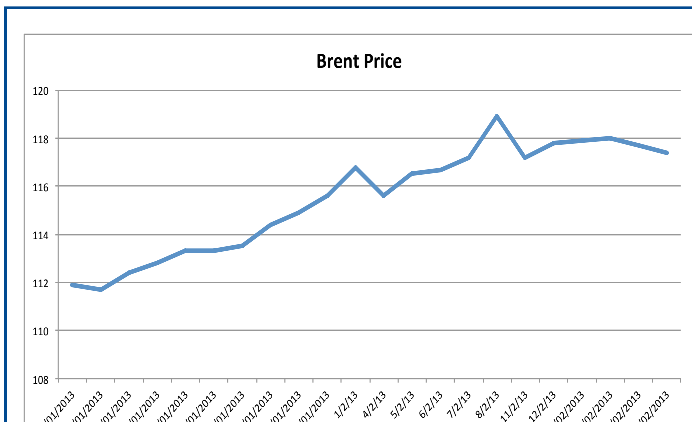


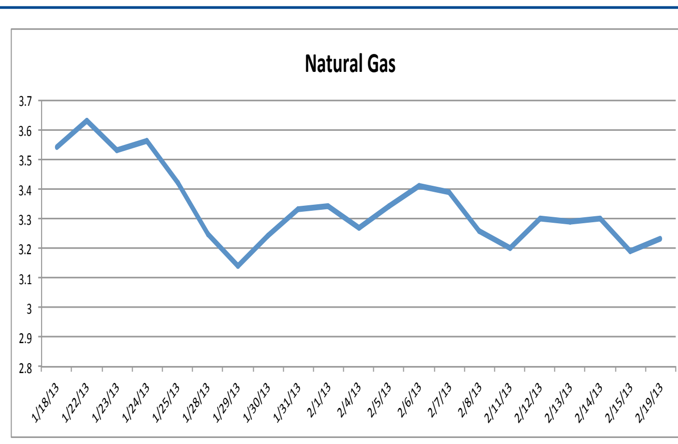


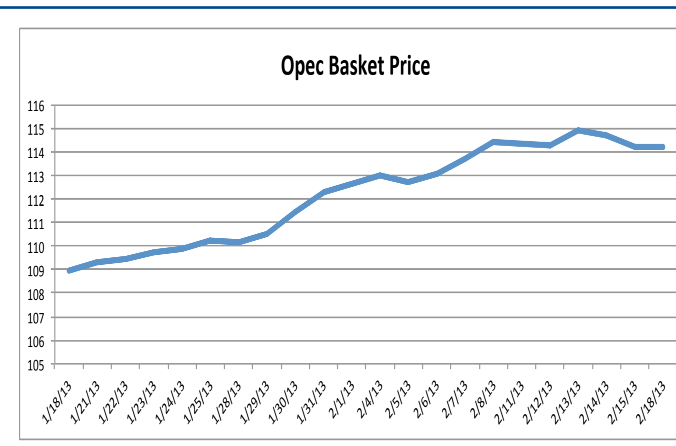












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