In Review

The Impact of Gulf Aid on Egypt's Economy

P.14

Political Review

The Redefining of the Muslim Brotherhood

P.20

EGYPT OIL&GAS NEWSPAPER

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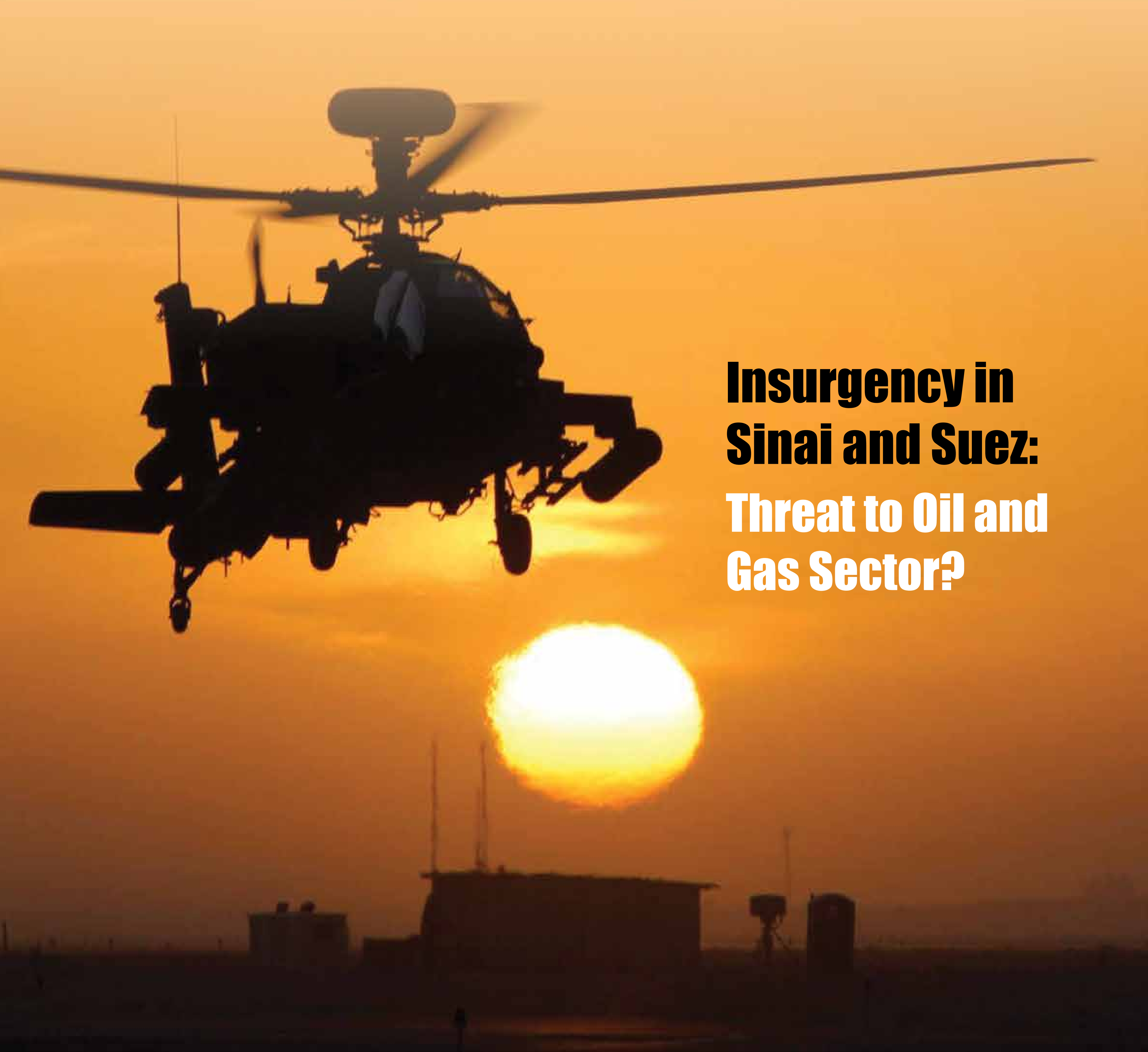


Insurgency in Sinai and Suez: Threat to Oil and Gas Sector?

Editor's Note

Since June 30th it seems that hardly a week goes by without a major development that necessitates a recalibration of our sociopolitical and economic realities. This past month it was announced that nearly two billion dollars in Gulf aid would be returned to Qatar, the Ministry of Petroleum announced its most recent attempt to schedule payments contending with nearly six billion dollars in arrears owed to international oil companies, Apache announced the sale of some of its assets to Sinopec, and the political spheres are moving to outlaw the Muslim Brotherhood.

In a related vein, our In Focus piece addresses the ongoing security threat in Sinai and Suez, areas obviously vital to the logistical operations of Egypt's oil sector given the presence of several pipelines. Our work specifically addresses occurrences of ongoing violence and instabilities throughout Egypt in an effort to explore the mechanisms by which international oil companies (such as Apache and now Sinopec) are continuing to function given the rapid deterioration of security in the region.

Our economic focus this month is upon the stark reality that Egypt will return approximately two billion dollars in aid to Qatar. The In Review article solicits various perspectives from several economic experts in order to determine how remaining aid can be most efficiently utilized for long-term national benefits rather than employed as a short-term stopgap measure. Finally our Political Review explores the future of the Muslim Brotherhood and any coming governments in light of these trends in Gulf aid and foreign investment. We also explore the contemporary paths of marginalization, radicalization, and political recalibration that seem to presently characterize Egypt.

Egypt Oil and Gas is also very excited to host its second Roundtable Debate to be held October 3rd. The roundtable addresses the future of unconventional resources in Egypt while bringing together government officials and industry executives to explore and debate the future of Egypt.

Julie Herrick Editor in Chief

Editor in Chief
Julie Herrick

Managing Editor
Maya Moseley

Senior Staff Writers
Laura Raus

Chief Reporter
Wael El-Serag

Contributors
John Pastrikos
Robert Mogielnicki

Marketing Manager
Ayman Rady

Business Development Officers
Ayman Hussien
Nada El.Labban

Art Director
Omar Ghazal

Cartoonist
Mai Gamal

Administrative Assistant
Basma Naguib

Commuications Liaison
Salma Selim

IT Specialist
Sameh Fattouh

Production Advisor
Mohamed Tantawy

Operations & Financial Manager
Abdallh Elgohary

Accountant
Mahmoud Khalil

Publisher
Mohamed Fouad

This publication was founded by
Omar Donia, Mohamed Sabbour
and Mohamed Fouad

EGYPT OIL&GAS NEWSPAPER

Contact Information:
Tel: +202 25164776
+202 25172052
Fax: +202 25172053
E-mail: info@egyptoil-gas.com
www.egyptoil-gas.com

Prices

Bullion Market		Oil Prices	
GOLD	SILVER	BRENT	NYMEX Crude
1352.59	22.03	110.20 USD/BBL	106.54 USD/BBL
5.21%	12.17%	2.46%	1.76%

Khalda Drills Eight Wells

Khalda Petroleum Company, a joint venture between EGPC and Apache Corporation, recently drilled several wells in its concession area in the Western Desert. Khalda's production rate of crude oil reached 4,156,746 barrels in August 2013.

KAH UC-177
The KAH UC-177 oil producing well was drilled to a depth of 11,095 ft. utilizing the ST-2 rig. Investments surrounding the drilling process are estimated at USD 777,000 .

UNAS-16
The UNAS-16 oil producing well was drilled to a depth of 6,400 ft. utilizing the EDC-66 rig. Investments surrounding the drilling process are estimated at USD 300,000.

UMB-217
The UMB-217 oil producing well was drilled to a depth of 11,250 ft. utilizing the ST-2 rig. Investments surrounding the drilling process are estimated at USD 2.250 million.

TAYIM W-2
The TAYIM W-2 oil producing well was drilled to a depth of 15,570 ft. utilizing the EDC-19 rig. Investments surrounding the drilling process are estimated at USD 2.272 million

SWAG-5
The SWAG-5 oil producing well was drilled to a depth of 10,300 ft. utilizing the ST-6 rig. Investments surrounding the drilling process are estimated at USD 4.770 million.

KHEPRI-29
The KHEPRI-29 oil producing well was drilled to a depth of 7,415 ft. utilizing the EDC-61 rig. Investments surrounding the drilling process are estimated at USD 600,000.

TUT -105
The TUT-105 oil producing well was drilled to a depth of 13,200 ft. utilizing the EDC-54 rig. Investments surrounding the drilling process are estimated at USD 1.861 million.

WD 33-7X
The WD 33-7X oil producing exploratory well was drilled to a depth of 13,800 ft. utilizing the EDC-3 rig. The well was temporarily abandoned. Investments surrounding the drilling process are estimated at USD 7.549 million.

Qarun Drills Four Wells

Qarun Petroleum Company, a joint venture between EGPC and Apache Corporation, recently completed the drilling of several wells in its concession area in the Western Desert. Qarun's production rate of crude oil reached 1,423,889 barrels in August 2013.

SAMRA-88A
The SAMRA-88A oil producing developmental well was drilled to a depth of 5,800 ft. utilizing the EDC-63 rig. Investments surrounding the drilling process are estimated at USD 835,000.

ED-53
The ED-53 oil producing well was drilled to a depth of 6,250 ft. utilizing the EDC-64 rig. Investments surrounding the drilling process are estimated at USD 902,000.

K-22
The K-22 oil producing well was drilled to a depth of 7,970 ft. utilizing the EDC-47 rig. Investments surrounding the drilling process are estimated at USD 1.336 million.

WON C- 4
The WON C-4 oil producing developmental well was drilled to a depth of 8,950 ft. utilizing the EDC-17 rig. Investments surrounding the drilling process are estimated at USD 1.486 million.

Cartoon

PETROBEL Drills in Sinai

PETROBEL Company, a joint venture between EGPC and Eni, recently completed drilling a developmental well in its Sinai concession. The 112-154 oil producing well was drilled to a depth of 9,163 ft. utilizing the ST-1 rig. Investments surrounding the drilling process are estimated at USD 3.021 million. PETROBEL's production rate of crude oil reached 3,745,396 barrels in August 2013.

PETRODARA

PETRODARA, a joint venture between EGPC and Dublin Canadian Company, recently drilled a new well in its concession area in the Eastern Desert. The E-ARTA-47 oil producing well was drilled to a depth of 4,813 ft. utilizing the ST-7 rig. Investments surrounding the drilling process are estimated at USD 900,000. PETRODARA's production rate of crude oil reached 381,806 barrels in August 2013.

Story Board

Agiba Drills in Western Desert

Agiba Company recently drilled a new developmental well in its concession area in the Western Desert. Agiba's production rate of crude oil reached 1,911,798 barrels in August 2013.

AMAN -51
The AMAN-51 oil producing developmental well was drilled to a depth of 6,300 ft. utilizing the PDI-104 rig. Investments surrounding the drilling process are estimated at USD 800,000.

AMAN DOME -1X
The AMAN DOME 1-X oil producing exploratory well was drilled to a depth of 6,300 ft. utilizing the PDI-147 rig. Investments surrounding the drilling process are estimated at USD 600,000.

E -AGHAR-20
The E-AGHAR-20 oil producing developmental well was drilled to a depth of 6,500 ft. utilizing the WF-161 rig. Investments surrounding the drilling process are estimated at USD 770,000.

AMAN W-1X
The AMAN W-1X oil producing new exploratory well was drilled to a depth of 6,500 ft. utilizing the PDI-147 rig. The well was temporarily abandoned. Investments surrounding the drilling process are estimated at USD 615,000.

BAPETCO Drills in Western Desert

BAPETCO Company, a joint venture between EGPC and Shell, recently drilled a new developmental well in its concession area in the Western Desert. The OBAD -38 oil producing well was drilled to a depth of 13,321 ft. utilizing the EDC-42 rig. Investments surrounding the drilling process are estimated at USD 6.173 million. BAPETCO's production rate of crude oil reached 1,140,353 barrels in August 2013.

OAPCO completes a New Well

OAPCO Company, a joint venture between EGPC and Sahari Company, recently completed drilling a well in the Western Desert. The WQ-17 oil producing developmental well was drilled to a depth of 7,392 ft. utilizing the EDC-2 rig. Investments surrounding the drilling process are estimated at USD 2.456 million. OAPCO's production rate of crude oil reached 63,009 barrels in August 2013.

SCIMITAR/GPC Drills in Eastern Desert

SCIMITAR/GPC recently drilled a well in its concession area in the Eastern Desert. The ISS-133 oil producing well was drilled to a depth of 2,114 ft. utilizing the SHAMS-1 rig. Investments surrounding the drilling process are estimated at USD 500,000.

PETROAMIR Completed a New Well

PETROAMIR, a joint venture between EGPC and Vegas, recently completed drilling a developmental well in its concession area in the Eastern Desert. The SHEHAB-2 oil producing developmental well was drilled to a depth of 5,390 ft. utilizing the ST-9 rig. Investments surrounding the drilling process are estimated at USD 1 million. PETROAMIR's production rate of crude oil reached 353,611 barrels in August 2013.

El HAMRA Oil Company Drills a New Well

El HAMRA Oil Company, a joint venture between EGPC and IPR, recently drilled an exploratory well in its concession area in the Western Desert. The TARFA - 4 oil producing well was drilled to a depth of 7,000 ft. utilizing the EFAD-111 rig. Investments surrounding the drilling process are estimated at USD 1.138 million. The company's production rate of crude oil reached 125,055 barrels in August 2013.

WASCO Company Completed a New Well

WASCO Company, a joint venture between EGPC and NPC (National Petroleum Company Petzed Investments), recently completed drilling a well in its concession area in the Nile Delta. The DABAYAA-2 ST oil producing well was drilled to a depth of 8,974 ft. utilizing the AMAK-1 rig. Investments surrounding the drilling process are estimated at USD 900,000. WASCO's production rate of crude oil reached 151,424 barrels in August 2013.

MARINA Drills in Western Desert

MARINA Company recently drilled an exploratory well in its concession area in the Western Desert. The S.RAHMAN-6 oil producing well was drilled to a depth of 10,300 ft. utilizing the EDC-6 rig. Investments surrounding the drilling process are estimated at USD 2.952 million.

Minister of petroleum Calls for Increased Cooperation

The Minister of Petroleum Sheriff Ismail called for increased cooperation between the Egyptian Petroleum Research Institute (EPRI) and Ganope Petroleum Company. Ismail previously served as the president of the EPRI. He argued that increased cooperation with the Ministry of Petroleum and EPRI could hasten technical, economic and environmental studies that could potentially increase the recovery, production and development of petroleum and petrochemical products in Egypt. Dr. Ahmed Sabbagh,director of EPRI outlined several research achievements and pledged increased support with the Ministry of Petroleum.

Kuwait Energy Discovers Oil at El Salmiya-2

Kuwait Energy announced the discovery of oil at its El Salmiya-2 well, located in the company's Abu Sennan concession area in the Western Desert. Kuwait Energy holds 50% of the concession, while Beach Petroleum holds 22% and Dover Investments Limited holds 28%. The El-Salmiya-2 well marks the company's sixth discovery in the Abu Sennan concession area. The production rate of the well is approximately 3,600 bpd.

Egypt-Qatar Talks for Natural Gas Cease

Egypt is no longer negotiating with Qatar to obtain natural gas. Qatar agreed in May to donate five cargoes of liquefied natural gas (LNG) to a cash and energy strapped Egypt. Preliminary discussions were held for Egypt to purchase 13 additional cargos of LNG more. Recently talks between Egypt and Qatar have stalled stemming from Qatari resentment over Egypt's harsh treatment of the Muslim Brotherhood and its supporters. The tension between Qatar and Egypt culminated this month, with Egypt annoucing it intended to return USD 2 billion worth of aid to Qatar.

Gas lines Secured Against Sabotage

The Egyptian army has intensified their presence around oil and gas lines extending between the Suez, Ismailia, and Cairo provinces, in order to secure them from any attacks. Army presence has been intensified in order to ensure smooth operations and block any attempts to sabotage essential pipelines. The intensified presence of the army has been concentrated on desert roads, which connect Suez, Sinai, Ismailia, Sharqia, Cairo, and the Red Sea. Various security checkpoints have been erected and roads are lined with army vehicles, and tanks.Numerous companies have retained army support to protect facilities and private oil refineries in the Port of Suez, Port Tawfik, Adbeya, Zayteyat, Atka and Ain Sukhna.

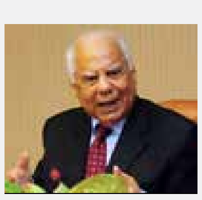
BP Discovers New Gas Well

BP Egypt recently announced a new gas discovery. According to Egypt Daily News, the Salamat well is located offshore North Damietta , approximately 75 kilometers north of Damietta. The deep-water exploration well in the Nile Delta was drilled at a water depth of 649 meters to a total depth of 7,000 meters utilizing the Maersk Discoverer, a 6th generation semi-submersible rig. Hesham Mekawi regional president for BP stated, "The Salamat discovery is a great outcome for our first well in this core exploration program in the East Nile Delta. It shows our commitment to meeting Egypt's energy needs by exploring the deep potential offshore the Nile Delta."

Choice Words

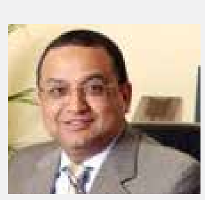
" We owe the foreign oil companies some USD 6 billion, which made them stop new investments. We are going to reach an agreement with them to schedule payment and increase their investments to USD 15 billion in the next two years. This will increase our production of gas dramatically. Also with the help of Arab aid, we will restructure that sector and develop its infrastructure.

Hazem El-Beblawy,
Egypt's Interim Prime Minister



" The Salamat discovery is a great outcome for our first well in this core exploration programme in the East Nile Delta. It shows our commitment to meeting Egypt's energy needs by exploring the deep potential offshore the Nile Delta. Standalone and tie-back to the nearby Temsah infrastructure development options are currently being evaluated.

Hesham Mekawi,
BP Egypt Regional President



" We condemn all forms and acts of violence. We have absolutely nothing to do with the incident (the attempt to assassinate the Interior Minister Mohammed Ibrahim). However, the details of the incident and the conflicting reports published by the media, claiming it was a car bomb then an explosive device, and that there was a number of dead victims then a number of wounded only, demonstrate that we have a measure of fabrication and media exploitation.

Khaled Hanafi,
Secretary of the Freedom and Justice Party

" The (constitutional) committee is predominantly composed of leftists and liberals, including extremist ones, who are strongly against anything Islamic. … Why do they want to destroy commitments to the (social) boundaries of Egyptian society by leaving freedoms loosely defined? … Those who took to the streets onJune 30th did not demand the removal of the constitution, so why is the committee infringing upon the Islamic identity of Egyptian society?

Yasser El-Borhami,
Salafist Call Spokesperson

Egypt Ties Arrears to Increased Production

Prime Minister Hazem el-Beblawi recently stated that the government is in the process of rescheduling an estimated USD 6 billion in arrears owed to international oil companies. "Reaching a settlement will lead to a rise in investment from foreign (oil) firms within two years to USD 15 billion." Minister of Finance Ahmed Galal noted that the government planned to pay international oil companies between USD 363 and 580 million by mid-October in an effort to give "companies an amount of liquidity that allows them to invest and discover to benefit production."

2012 financial statements from BP, BG, Edison and TransGlobe demonstrate that the Egyptian government owed approximately USD 5.2 billion in arrears. Dana Gas, in particular, documents delayed payments of USD 230 million. New investments in the Egyptian oil and gas sector are stagnant as a result of the arrears and two years of ongoing political and economic turmoil.

A recent statement from Minister of Finance Ahmed Galal noted that the recent payments would increase investment in the sector. Galal stated, "Right now the rescheduling of the debts is under review in exchange for the companies investing in drilling and exploring for oil and increasing production."

Egypt Seeking to Expand Role of National Companies in Oil and Gas Sector

A governmental source reported that invitations for a bid round have been offered to national companies for "Bird Sea", Ganope's concession area. National companies include General Petroleum Company, which is 100 percent owned by the Egyptian government, and Tharwa Petroleum Company. The move comes as international companies operating in Egypt have demonstrated reluctance to initiate new investments in light of sector-specfic problems, as well as broader economic and political instability. The source also stressed the importance of maximizing the role of national companies in the sector. Ganope is also reviewing proposals for the latest international bid round, which included 20 blocks.

TransGlobe Discovers New Well

TransGlobe recently announced a discovery in its concession located in the East Ghazalat area of the Western Desert. The North Dabaa 1X well was drilled to a depth of 14,740 feet, in which 8 feet of net oil pay and 23 feet of net gas/condensate pay were discovered in the Khatatba formation. The well was suspended and the drilling was released.

British Gas Reduces Production Targets

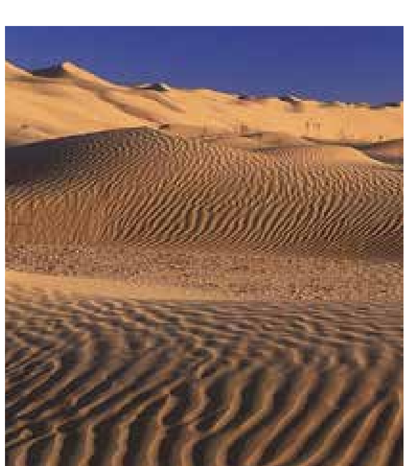
Due to the political instability in Egypt, British Gas recently announced a reduction in its 2014 production targets. In an official statement, BG stated that the West Delta Deep Marine project had suffered delays and, as a result, production will commence later than expected in 2014. BG is simultaneously experiencing production difficulties in Norway, which was a contributing factor in the reduction of the target. The company stated, "the combined impact from Egypt and Norway in 2014 will be a reduction of 30,000 barrels of oil equivalent per day." The company noted that production targets for 2015 (775,000 and 825,000) still apply.

Apache Drills Two New Wells

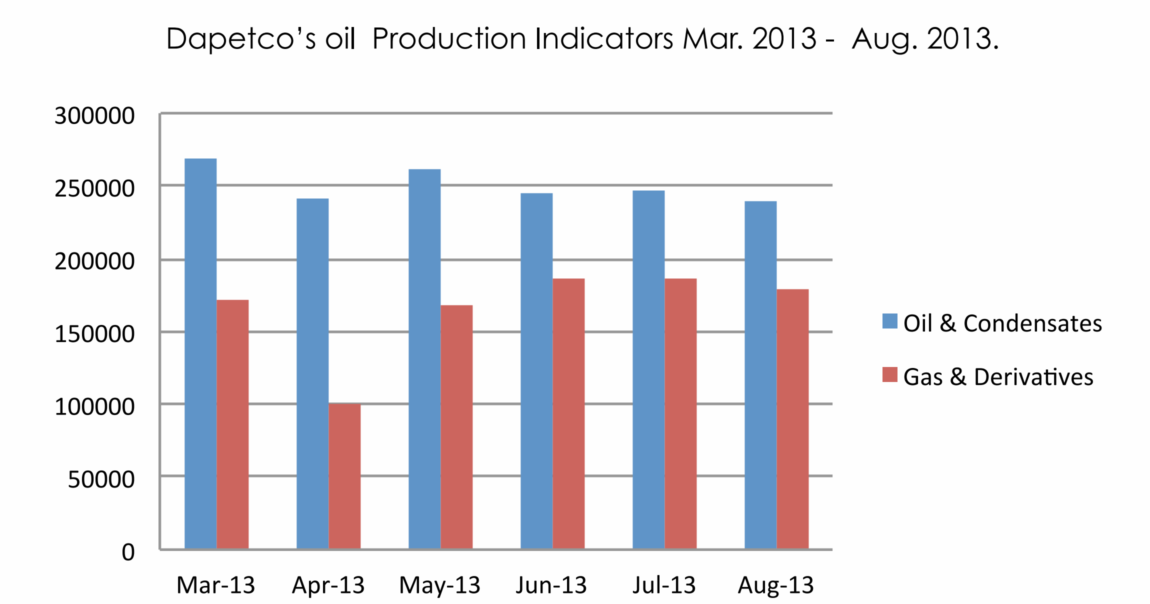
Apache recently drilled two exploratory wells in its concession area in the Western Desert.

WKAL-T-1X
The WKAL-T-1X oil producing exploratory well was drilled to a depth of 16,200 ft. utilizing the EDC-59 rig. Investments surrounding the drilling process are estimated at USD 4.495 million.

W.GHAZ D-1X
The W.GHAZD -1x oil producing exploratory well was drilled to a depth of 15,250 ft. utilizing the EDC-57 rig. The well was permentantly abandoned. Investments surrounding the drilling process are estimated at USD 4.819 million.

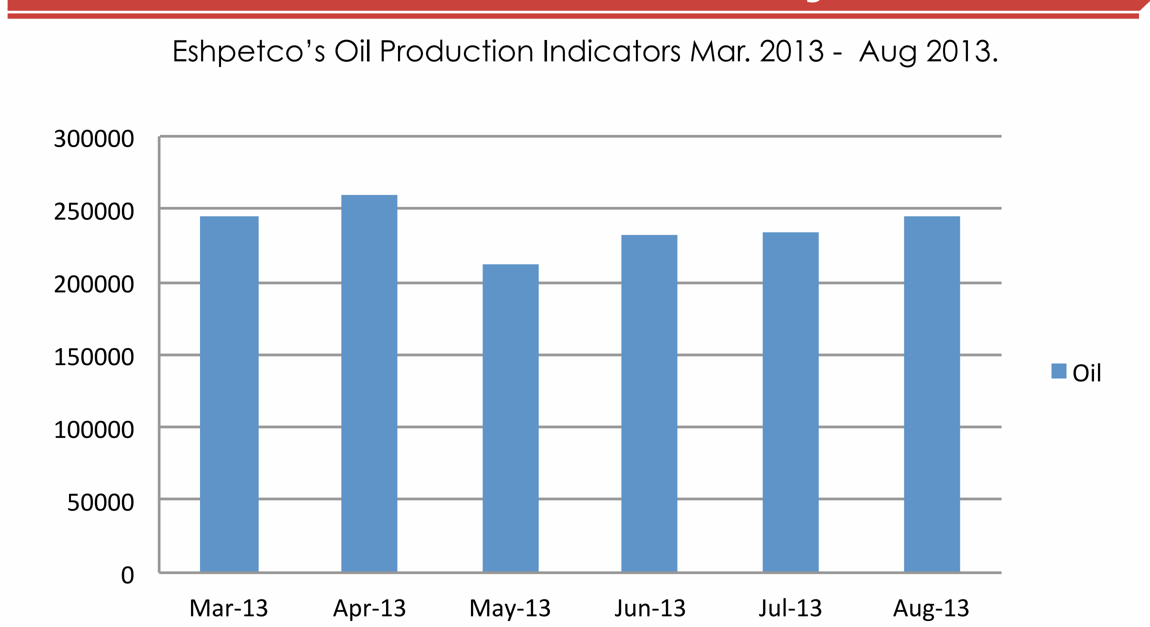


DAPETCO's Oil Output Steady, Gas Slumped in April



The oil and condensates production of South Dabaa Petroleum Company (DAPETCO) has been relatively stable between 240,000 and 270,000 barrels from March to August. However, it was the highest in March and lowest in August, indicating that there may be a slight downward trend. In March, the output amounted to 269,250 barrels. In August it was 240,192 barrels, 11% less compared to March. The company's gas and derivatives production has also been relatively stable between 150,000 and 200,000 barrels equivalent, with an exception of April when it amounted to only 101,071 barrels equivalent, dropping 41% compared to the previous month.

ESHPETCO's Oil Production Relatively Stable



The oil production of Esh El Mallaha Petroleum Company (ESHPETCO) has been relatively stable between 200,000 and 250,000 barrels from March to August, with an exception of April, when it reached 260,028 barrels. The lowest production was recorded in May. In that month, the output was 212,411 barrels, 18% less compared to the previous month. Since May, the production has been slightly higher each month, indicating a weak upward trend. However, due to the relatively sharp decrease in May, the output was only marginally higher compared to March by August.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Guendalian-3 Well Shut-In

On August 30th, Eni informed Mediterranean Oil & Gas PLC (MOG) that the short string of the Guendalian-3 well was shut-in due to low pressure. The short string was responsible for approximately 49 percent of production at Guendalina, informed 4-Traders. Following the shut-in the field's production rate is approximately 34,000 scm per day.
MOG announced that after pumping nitrogen into the Guendalian-3 well, production was restarted at a rate of 60,000 scm/d of gas for close to 10 hours. The production indicated stable flowing pressure and absence of water. Following the nitrogen test, the well was shut-in as the operator continues to evaluate options to restore production. Eni holds 80 percent of the field's interest while MOG holds the remaining 20 percent.

Mediterranean Oil & Gas Suffers Loss Due to Well Closure

Mediterranean Oil & Gas reported a pretax loss of 3.4 million euros (approx. USD 4.6 million) in the first half of 2013, largely caused by the closure of a well off shore Italy.
In the same period of the last year, the company earned a profit of 3.6 million euros. Its revenue fell to 5.4 million euros from the 16.3 million of the first half of 2012. Gas production declined by 33% year-on-year and amounted to 610 million cf in the first half of 2013, reports Rigzone.
Production and revenue fell mostly due to the Guendalina field well GUE 2ss being taken offline in March in order to verify the cause of an influx of water. Despite this, the Eni-operated Guendalina field in the Adriatic Sea, in which Mediterranean Oil & Gas has a 20% stake, continues to provide the majority of company's revenues.
According to London South East, the company's profitability in the first half of 2013 also suffered from higher administrative expenses, which included legal fees of 440,000 euros in relation to a legal claim submitted by Leni Gas & Oil. The claim relates to the August 2012 sale of a 10% stake in a Maltese exploration block by Leni Gas & Oil to Mediterranean Oil & Gas, which already owned 90% of it. Leni Gas & Oil insists that Mediterranean Oil & Gas misled it regarding the price of the stake.
When talking about the results for the first half of 2013, the Chief Executive of Mediterranean Oil & Gas, William Higgs, assured that the company would actively pursue the approval of Environmental Impact Assessment (EIA) and production concession for its Ombrina Mare oil and gas field in the Adriatic Sea, which has been delayed. In July, the Italian Ministry of Environment told Mediterranean Oil & Gas it must obtain an environmental authorization before the approval of the EIA. The company claims it had been told the authorization would not be needed before the first production from the project. "We continue to work with the relevant authorities to seek resolution of the issue," affirmed Higgs.

Cypriot Gas Reaches Surface

Cyprus' Minister of Energy Yiorgos Lakkotrypi recently announced the first successful test flare from Block 12 (Aphrodite) located in the Exclusive Economic Zone. Noble Energy operates Block 12, the first gas field awarded to an international exploration company. Delek Drilling and Avner Oil Exploration are also partners in Block 12. The field has estimated reserves of seven trillion cubic feet. The successful test flare confirms the existence of resources in the Aphrodite field. According to an official statement from Cyprus' energy ministry, the production test occurred onboard Noble Energy's exploration rig ENSCO 5006 and will last five days. As the EU's southernmost country and considering its proximity to the Levant Basin, the country is currently trying to position itself as a regional energy hub.

Cyprus and Turkey Face a Dilemma on Israeli Gas

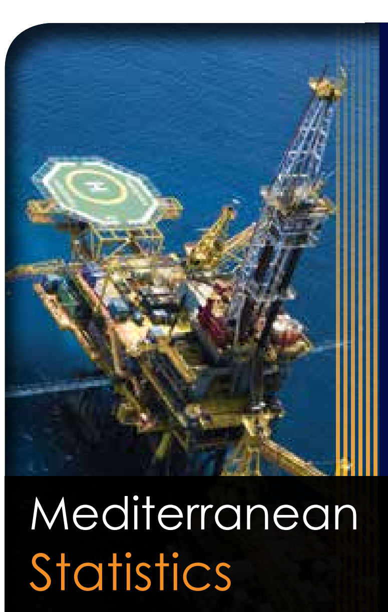
Israel has created a dilemma for Cyprus and Turkey. The two countries can either move forward together in order to develop Israel's gas riches or stay on the sidelines due to their decades-long policy of non-cooperation. Israel has said Cyprus is the only likely host for an LNG plant on foreign soil for exporting its gas. Recently, Israel began talks to ship its gas to Europe via a pipeline that crosses Turkey in order to diversify export options. A pipeline from the Israeli Leviathan gas field to Turkey could join the Trans-Anatolia Natural Gas Pipeline (TANAP) or even the Trans Adriatic Pipeline (TAP), in addition to supplying Turkey's national grid. In Israel's view, a shorter western arm of the pipeline would go to Cyprus, reports Kathimerini.
However, the pipeline to Turkey would have to pass through the internationally recognized exclusive economic zone (EEZ) of Cyprus, but Cypriot officials ruled out such an option until the conflict with Turkey has been solved. On the other hand, Israeli officials warn that if Cyprus does not allow the pipeline to run through its EEZ, then Israel's gas will probably not go to the Cypriot LNG plant.
There is no sign yet that Turkey's Prime Minister Recep Tayyip Erdogan would approve a pipeline that benefits Israel. Unless Cyprus and Turkey decide to forego political antipathies, they are likely to be left without the benefits of Israeli gas. Israel is already looking into alternative options such as an LNG plant on its own soil.

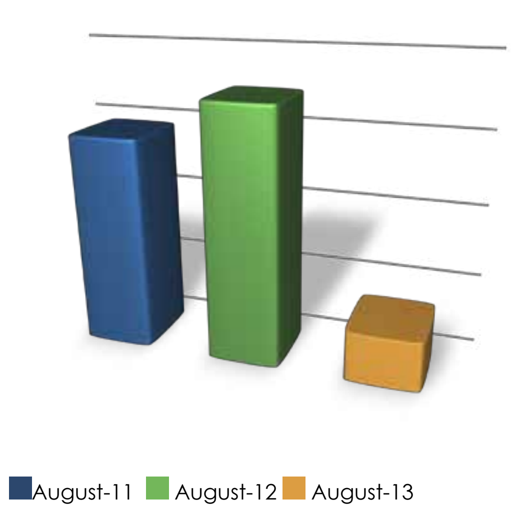
Rashpetco Completes Three Gas Wells in the Mediterranean Sea

Rashid Petroleum Company (Rashpetco), a joint venture between EGPC, BG and Petronas, recently completed three exploratory gas wells in its concession area in the Mediterranean Sea close to Brullus.The wells are Libra-Da, Sama Offshore-1 and Sparrow-1. Their depths range from 8,200 to 11,500 ft. Investments surrounding the drilling process of each well are estimated at USD 1.3 billion. The wells are expected to start producing at the end of this year, adding 300 billion cf of gas per day in total to the company's output. Four months ago, Rashpetco drilled three wells in the same area and three more are expected to be drilled in the next year.

Malta to Buy Libya's Oil at Preferential Rates

Libya will sell Malta energy products at preferential rates after its oil production has normalized, according to a memorandum of understanding that the two countries signed on September 2nd. The products include crude and refined oil, jet fuel and LPG.
During the visit of Libya's Prime Minister Ali Zeidan to Malta, the two countries also agreed to conduct joint oil exploration in the waters that they both claim as their own. According to the Malta Independent, Zeidan has been criticized for the recent deal. "Zeidan has turned Libya into a charity organization named The Libyan Zeidan Charity with his decision to sell Libyan oil to Egypt on easy credit terms," told a member of staff at the Wahda Bank to Libya Herald, adding that the Prime Minister as well as the Oil Minister should be taken to court for damaging Libya's wealth.





Equivalent Gas			Oil		
August-11	August-12	August-13	August-11	August-12	August-13
22,908,036	23,458,571	20,684,821	N/A	N/A	N/A

Liquefied Gas			Condensate		
August-11	August-12	August-13	August-11	August-12	August-13
370,610	371,488	390,137	1,444,785	1,171,055	1,251,821

	Total	Percentage of Total Rigs
Mediterranean Rig Count 2013	8	7 %

Oil Companies Lose Millions in Libya

Despite rebounding after the 2011 civil war, Libya's oil production has dwindled in the last few months. According to the Financial Times, Libya's production rates have fallen from 1.4 million barrels per day at the beginning of the year, to a current rate of less than 200,000 barrels per day. The drop represents a loss of approximately USD 100 million per day for the government and international operators. Libya's parliament is working on a plan to reinstate operations, however, oil companies remain skeptical. Eni is taking steps to diversify its projects outside of North Africa, while other companies such as Repsol continue exploration efforts despite the current uncertainty. In July Marathon Oil put its Libyan stakes up for sale.

Outrage over SOCO's Exploration in DR Congo National Park

Human rights groups, environmentalist, international governments and international organizations have expressed concern over London-based South Africa Congo Oil's (SOCO) oil exploration in Virunga National Park. The park, located in the conflict-prone region of the eastern Democratic Republic of Congo (DRC), is a UNESCO World Heritage Site and home to 200 critically endangered mountain gorillas.

In 2010, SOCO was awarded Block V by the Congolese government. The block overlaps a sizeable portion of Virunga National Park. According to SOCO, the company is still in the preliminary phase of exploration, consisting of aerial surveys and environmental assessments. Oil major Total also holds a block that overlaps park boundaries but it has ruled out conducting any operations within the park boundaries.

Under Congolese law, environmentally destructive activities are prohibited in national parks. However, as Leila Maziz of the UNESCO World Heritage Centre explained, "SOCO's exploration license exploits an exemption in that allows for 'scientific activities' in protected areas."

SOCO's operations in the park have elicited widespread criticism. UNESCO and its World Heritage Committee have repeatedly raised concerns over oil exploration in the park to the national government. Maziz informed Egypt Oil & Gas, "The World Heritage Committee does not allow mining, oil and gas exploration and exploitation within the World Heritage sites. However, more sites are threatened by extractive industries and UNESCO is following up closely their state of conservation. In March 2012, UNESCO addressed the Minister of Environment, Nature Conservation and Tourism to express its concern regarding the authorization to SOCO Company to initiate aeromagnetic and aerogravimetric explorations while the environmental impact study was ongoing."

Additionally, the European Parliament, as well as the British, Belgian, and German governments have expressed opposition to SOCO's exploration in Virunga National Park.

The World WildLife Fund (WWF) has extensively reported on the environmental risks including: pollution, water and soil contamination, destruction of local habitats and species, and increasing volcanic activity. In many countries such risks can be monitored and regulated by environmental agencies, however the government in Kinshasa has a minimal level of control over this region of the country. As a 2013 WWF report explained, "in an area prone to violent conflict and lacking systematic government legislation and enforcement, pollution-free extraction will be extremely difficult, if not impossible to guarantee."

Operating in a region devastated by prolonged conflict, also presents risks to human rights. The Consortium on the Sustainable Management of Natural Resources in the Virunga National Park has reported arbitrary arrests, intimidation, and torture of local activists opposing oil operations in the park. An August 2013 report by IPIS concluded that "one of the main causes of the current problems is SOCO's failure to conduct proper human rights due diligence before it started its activities in Virunga."

SOCO has denied knowledge and involvement in the claims of abuse against opposition activists. The company has stated that it intends "to have a positive social impact on local communities' lives" that will "far outweigh its environmental impact." In terms of environmental risks, "SOCO has stated it will never seek to have operations in the mountain gorilla habitat, the Virunga Volcanoes or the Virunga equatorial rainforest."

Noble Energy Makes Discovery in Mississippi

Noble Energy announced a recent discovery in the Gulf of Mexico. According to Market Watch, the well is located in the company's Big Bend/Troubadour area, at a water depth of 7,273 feet on Mississippi Canyon Block 699. The well was drilled to a depth of 19,510 feet. Discovered gross resources for the area are estimated between 50 and 100 million barrels of oil equivalent, with 75 percent representing oil volumes. The well has been temporarily abandoned amidst plans for future development.

China Acquires Stake In Kashagan Oilfield

Chinese President Xi Jinpin recently announced the acquisition of an 8.3 percent stake in a Kazakhstan oilfield located offshore in the Caspian Sea. The Kashagan oil project is the world's largest oil discovery in five decades. According to Reuters the sale took place for a reported USD 5 billion.KazMunai Gas and CNPC (China Natural Petroleum Corp) negotiated 22 agreements worth an estimated USD 30 billion during President Xi's visit. The deal will increase China's influence in post-Soviet Central Asia. The second phase of development is expected to commence in 2020. At that time CNPC will pay an additional USD 3 billion to further assist in financing.

ExxonMobil Closes Cobia Platform

According to a company press release, ExxonMobil recently shut down operations at the Cobia platform locating in the Bass Strait, offshore Australia. The Corbia platform is located about 43.4 miles offshore from Longford. Exxon shut down operations after noticing a sheen of oil located near the platform. The event resulted in 750 liters or five barrels of spilled oil. While the spilled oil dispersed naturally an investigation is currently underway to determine the cause of the leak.

Libya's Oil Fields Re-open

Libya's oil output reached 40% of its prewar capacity after striking militias agreed to open the valves on a pipeline between two major western oil fields and Mediterranean port terminals. By September 18th, oil output reached 620,000 bpd, after slumping as low as 150,000 bpd when the militias closed the valves on August 27th, reports Voice of America.

The recent disruption, caused by the militant groups who overthrew the dictator Muammar El-Qaddafi in 2011 and were later employed to protect the Libya's oil fields, cost the country around USD 130 million a day, according to the Prime Minister Ali Zeidan.

A militant commander Ibrahim Ali Jathran told the Guardian that the strike was against the seizure of power and oil revenues by the Muslim Brotherhood who leads the government.

Protests still continue at the fields and export terminals on the eastern side of Libya, where the remaining 60% of the country's oil production is based, writes the New York Times.

Yemen's Main Oil Pipeline Blown Up

Tribesmen blew up Yemen's main oil pipeline on September 14th, this is the fourth attack on the pipeline in a month.

The attack caused a fire and stopped crude oil flows, which normally amount to 110,000 bbd, from the Maarib fields to the Ras Isa export terminal, reports Reuters.

Yemen's oil and gas pipelines as well as its main electricity grid have been frequently attacked since the eruption of protests against the former President Ali Abdullah Saleh in 2011, who handed power over to his deputy last year. Tribesmen often carry out attacks to make the government meet their demands that relate to unemployment, land disputes and imprisoned relatives.

Fugro Acquires DCN Global

Fugro recently announced the acquisition of DCN Global. DCN Global specializes in the provision of subsea engineering and diving services. DCN Global has been active in Abu Dhabi, Qatar and Saudi Arabia since 2010, earning revenues of approximately USD 30 million in 2013. In a company press release, Fugro stated that the acquisition of DCN Global will significantly strengthen "its ability to offer an integrated offshore service package of survey, geotechnical and IRM (inspection, repair and maintenance) services."

Iraq's Majnoon Oilfield to Begin Producing

Iraq's Majnoon oilfield, run by Royal Dutch Shell, is set to begin production in October at a rate of 175,000 barrels per day (bpd). The Majnoon field is located in southern Iraq, one of four major oilfields in the area. According to Reuters, Iraq is anticipating a 400,000 bpd rise in output by the end of this year. Iraq seeks to double existing output that currently stands at three million bpd. The Majnoon field is an integral part of production targets, as are the neighboring fields of Rumaila, Zubair, and West Qurna-1 that currently produce 600,000 bpd. The Garraf oilfield located in the south is also part of this goal. The Garraf field, developed by Malaysia's Petronas and Japan Petroleum Exploration, started production this month at a rate of 35,000 barrels.

Iran Reshuffles Key Oil Officials

Iranian Oil Minister Bijan Zanganeh recently reshuffled key oil and gas officials. Roknoddin Javadi replaced Ahmad Ghalebani as the head of the National Iranian Oil Company. Javadi previously served as director of the Oil Industries Engineering and Construction Company (OIEC). Hamid Reza Araqi replaced Javad Oji as the Managing Director of National Iranian Gas Company (NIGC). Abbas Sheri Moqaddam replaced Abdolhossein Bayat as the head of the National Petrochemical Company.

Reef Subsea Secures Middle Eastern Contracts

Reef Subsea Dredging and Excavation (D&E) recently secured contracts for subsea excavation in the Middle East, particularly Saudi Arabia and Iraq. According to a company press release, the work in the Al Khafji field in Saudi Arabia, on behalf of Technip and Khafji Joint Operations (KJO), is a shore approach cable excavation. D&E will manage the post-lay burial of the 6.5-inch (165 millimeter) composite cable. The second contract with Leighton Offshore involves the post-lay burial of a fiber optic cable in excess of 31 miles.

UK Requests Exemption from Sanctions

The UK Department of Energy and Climate Change (DECC) has requested exemption from US imposed sanctions on Iran. As reported by the Wall Street Journal, the British government has requested exemption for the Rhum North Sea gas field. BP UK and the National Iranian Oil Company are partners in the field, which has a production capacity of 5.4 million cubic meters. Operations ceased in 2010 amidst US imposed sanctions on Iran surrounding their alleged nuclear program. The UK is requesting exemption for BP in order to resume operations. The request comes amidst reduced supplies of natural gas in the UK, stemming from an economic recession as well as declining domestic production of natural gas.

Two Egyptian Firms Short-listed to Build Iraq-Jordan Pipeline

Iraq announced that it had prequalified 12 companies and joint ventures, including Egypt's Orascom and Petrojet, to build an USD 18 billion export pipeline to Jordan.

The other shortlisted companies are Russia's Lukoil, China National Petroleum Corporation (CNPC), Japan's Marubeni Corporation, Japan's Mitsui, Japan's Toyota Tsushu, a consortium of Punj Lloyd from India and Mass Global International from Iraq, Italy's Saipem, Korea's Daewoo International Corporation, Consolidated Contractors Company (CCC) of Greece, a consortium of Go Gas from India, Larsen & Toubro (L&T) from India and Fius Capital from Dubai, and a consortium of Petrofac from UK and Stroygazconsulting (SGC) from Russia. The companies will be invited to submit their offers to build the pipeline by the end of this year, reports Trade Arabia.

The 1,680-kilometre double pipeline is expected to carry 1 million barrels of crude and 258 million cf of gas per day from Basra to the Port of Aqaba starting late 2017. 850,000 bpd of the oil will be exported, reducing Iraq's dependence on the Strait of Hormuz shipping route, and the rest left for meeting Jordan's own energy needs. Of the gas, 100 million cf will satisfy Jordan's daily needs and the rest will be used to run pumping stations along the pipeline.

Chinese Firm Withdraws from Iran-Pakistan Pipeline Project

Panyn Chu King Steel withdrew from the Iran-Pakistan gas pipeline project and now Pakistan hopes that Iran will fully fund the construction of the 2,775-kilometer pipeline. The company, which had earlier told Pakistan it could give USD 500 million for the pipeline, pulled out after Islamabad refused to extend the bid validity period, reports Energy Global.

The pipeline is expected to transport 750 million cf of gas per day from Iran to Pakistan, which suffers from severe energy crisis. The total estimated cost of the project, expected to be finalized by mid-2014, is USD 1.5 billion. Iran completed the construction of its 1,172-kilometer section already by July last year and has committed USD 500 million in loans for laying the pipeline in Pakistan. In return, Pakistan has promised the engineering, construction and procurement contract to the Iranian firm Tadbir Energy. Iran has already expressed its willingness to increase the credit limit. Russia recently expressed willingness to build the pipeline.

The pipeline was originally intended to supply gas for Pakistan and India, but India withdrew from the project. The US, which considers Iran a security threat, has warned that it will impose sanctions on Pakistan.

Chevron's Shale Gas Bid in Lithuania

Chevron recently gained approval from Lithuania's Ministry of Environment to explore for shale gas. Chevron Exploration & Production Lietuva believes a field located in the western part of the country contains significant deposits of shale oil and gas. Lithuanian officials believe that the country has an estimated 30 to 50 billion cubic meters of extractable shale gas reserves. The government would like to develop unconventional resources in order to decrease dependence on Russian energy supplies. Russian energy giant Gazprom is Lithuania's lone natural gas supplier. Gazprom pumped 3.3 billion cubic metres of natural gas into Lithuania last year.

Fracking Gas Leaks Smaller than Previously Estimated

Hydraulic fracturing appears to cause smaller methane leaks than the US government estimated in 2011 thanks to companies applying containment measures, says a peer-reviewed study conducted by the University of Texas. By analyzing more than 500 wells from May to December last year, the study determined that the leaks occurring during well completion were smaller than previously estimated. However, the losses related to other stages of the hydraulic fracturing process were bigger than previously estimated. The leaks at well completion were smaller largely thanks to the containment measures applied by companies, which captured 99 percent of methane that escaped. When burned as fuel, methane, the main component of natural gas, emits less CO_2 than coal and oil. However, when vented to the air, it traps heat at a much higher rate than CO_2, so even a small loss of methane to the atmosphere can negate its climate-changing advantage over coal, say scientists. Even though the government regulations on leak containment during hydraulic fracturing do not go into enforcement until 2015, several companies are already doing so, writes the New York Times.

The University of Texas was the first to conduct detailed examinations of individual drilling sites. It did so with the authorization of petroleum companies, which provided about 90 percent of the financing for the study. The previous estimates of the government are based on engineering calculations, whereas other studies have obtained data via aircraft flights over fracturing sites.

Ukraine Moves Closer to Shale Gas Exploration

Government representatives in the region of Ivano-Frankivsk, located in western Ukraine, approved a draft of a production-sharing agreement between the government and Chevron. Officials in the neighboring region of Lviv must also approve the draft agreement, reports Reuters. Chevron is seeking exploration rights to the Olesska shale field. Royal Dutch Shell has already secured shale exploration rights to the Yuzivska field in the eastern region of the country.

Tasmania Debates Shale Risks and Benefits

Following Petragas's application for a shale exploration license for Tasmania, Australia locals have voiced their concerns. According to the Australian Broadcasting Corporation, 22 objections to the license have been submitted to the local office of mineral resources. The organization, Our Tasmania was established to monitor the exploration plans. Concerns have been raised over water-scarcity and risks of water contamination.

Europe's Record Shale Gas Flow in Poland

Lane Energy is extracting about 8,000 cubic meters (ca 280,000 cf) of shale gas per day from a test well in Poland, which is the highest amount in Europe so far, but it still does not qualify as commercial production.

Laurie St. Aubin, the President of Lane Energy, said that two more wells need to be drilled next year in order to determine if gas can be flowed at commercial rates, reports Reuters.

Poland has issued more than 100 shale gas exploration licenses to local and international companies, which had drilled 48 wells by the beginning of September. Three international companies have quit after disappointing drilling results.

UK Shale Gas Driller Freezes Exploration due to Protests

Cuadrilla Resources put its exploration activities near the British village of Balcombe on hold due to anti-fracking protests.

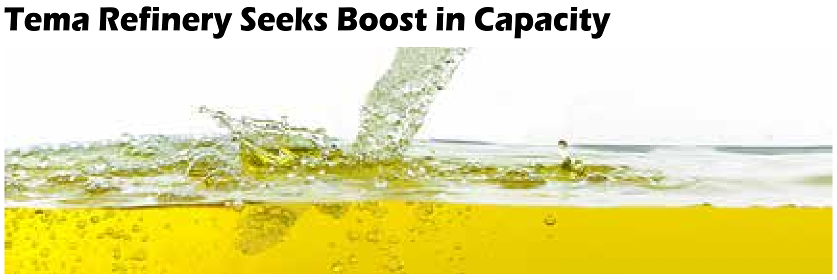
The company is drilling a conventional oil well near Balcombe, but has not ruled out seeking permission for fracking later. In 2011, Cuadrilla suspended fracking elsewhere in England after causing two small earthquakes, reports Bloomberg. It is the only company that has fracked a shale gas well in the UK so far, according to Reuters.

As a result of the recent weeks-long protests by hundreds of people, Cuadrilla withdrew an application to extend drilling at the site near Balcombe beyond September 28th when its current permit expires. The company added that it would submit new plans next year.

Total Acquires Chevron's Pakistan Retail Network

Total has agreed to buy Chevron's retail distribution business in Pakistan, reported Reuters. TOTAL PARCO Pakistan Limited, a joint venture between Total and Pak Arab Refinery Limited (PARCO), will acquire Chevron's fuel marketing, logistics and aviation business in Pakistan which includes 538 petrol stations. Numerous international companies are divesting in downstream operations, which include crude oil refining and processing, marketing and distribution, in favor of higher-margin exploration and production activities. Royal Dutch Shell said in April it was considering selling some of its Italian downstream assets including retail, aviation and supply and distribution businesses. Total acquired Shell's Egyptian downstream assets in May. In August, Total also purchased Chevron's Egyptian retail network effectively creating the biggest marketing and services subsidiary outside Europe.

Tema Refinery Seeks Boost in Capacity



Tema Oil Refinery, Ghana's sole crude processor hopes to increase capacity by 33 percent by 2015 as a result of updated equipment. According to Bloomberg, the refinery currently operates at 60 percent capacity as a result of recurrent closures over the past two years. Managing Director Ato Ampiah stated that the retrofit "will increase production capacity to 60,000 barrels a day from the current 45,000." The government has yet to pay the USD 67 million required to finish the upgrades.

Shell Reopens Trans Niger Pipeline

Shell Nigeria recently reopened its Trans Niger Pipeline (TNP) resulting in a production increase of 150,000 bpd. All Africa reports that Shell was forced to shutdown the TNP in July due to a leak that was caused by a six-inch crude valve strategically placed to divert and steal oil. Shell has faced recurrent problems with oil thieves at Bodo West, located in the Niger Delta's Ogoniland. Daily losses surrounding the TNP shutdown are estimated at USD 15 million.

Chevron Reaches Agreement About Oil Damages

Chevron recently signed an agreement in order to end civil lawsuits resulting from November 2011 oil spill off the shore of Brazil. As reported by the New York Times, the incident resulted in 3,600 barrels of spilled oil in the ocean northeast of Rio de Janeiro and caused USD 17.5 billion worth of damages. The legal agreement includes USD 130 million in compensatory damages earmarked for various social and environmental causes. The lawsuits surrounding the 2011 incident are the largest environmental actions in Brazilian history.

Corruption Charges Surround Chinese Refinery

An oil refinery and chemical plant outside the Chinese city of Pengzhou has become the subject of controversy amidst charges of bribery and corruption. Construction of the refinery began in 1999 despite widespread protests surrounding the location of the plant. The city of Pengzhou lies in close proximity to earthquake fault lines and lies in a geographic basin that possesses little wind to disperse any airborne pollution. The refinery is also remote and requires a 550 mile long pipeline to provide necessary crude oil.

Current allegations charge that Zhou Bin bribed executives at China National Petroleum Corporation (CNPC) to secure the project. Zhou Bin is the son of Zhou Yongkang, who was party secretary of Sichuan when the Pengzhou project was proposed. Zhou Bin is accused of bribing officials to gain approval for the Pengzhou refinery.

Wison Engineering, a company secretly controlled by Zhou Bin, subsequently won construction and engineering contracts associated with the Pengzhou refinery. The contracts are estimated to be worth £820 million.

Government investigators recently seized the offices and bank accounts of Wilson Engineering. The Financial Times recently reported that Zhou Bin fled China for the US. Several other government officials notably Jiang Jiemin, the former chairman of CNPC and previously the vice-governor of Qinghai province, have been detained pending further investigation.

European LNG Terminals Face Idling

Due to drops in LNG shipments, many European import terminals face running idle. The drop in LNG shipment stems from higher demand in Asian and South American markets, which are willing to pay higher prices, informs Reuters. LNG deliveries to Europe are projected to drop by 24 percent this year. While terminals can idle their capacity, the costs for doing so are high. The Spanish government is shouldering the financial burden of running idle LNG terminals. France is facing a similar dilemma as the Montoir LNG terminal is only operating at 12 percent but must continue to finance the operational costs for the facility.

Tanzania to Ramp up Renewable Energy Development

According to All Africa, the Climate Investment Fund (CIF) recently endorsed a Tanzanian investment plan to increase renewable energy resources. The plan seeks to reduce Tanzania's dependence on fossil fuels and hydro resources. The plan features a geothermal component and a renewable energy for rural electrification component. The CIF's Scaling-Up Renewable Energy Program in Low-Income Countries (SREP) will provide USD 25 million and the African Development Bank (AfDB) will provide USD 45 million towards the development of 100 MW of geothermal power.

US Department of Defense's Renewable Initiative

In 2012, in order to enhance energy independence and sustainability, the US Department of Defense was put under congressional mandate to ensure that by 2025, 25 percent of the defense department energy was generated from renewable resources. The Department of Defense is the biggest single energy consumer in the world at an estimated cost of USD 20 billion each year. The initiative has an estimated cost of USD seven billion and will be implemented over a period of 30 years. Contracts for geothermal, wind and solar energy have been awarded to companies such as Duke Energy, Dominion Resources, and solar panel maker Sunpower. According to Reuters, Italian company Enel Green Power is one of several companies competing for lucrative geothermal contracts.

India Cooperates with Cuba on Renewable Initiative

India recently offered a line of credit to Cuba in order to facilitate the country's use of renewable energy. In an effort to decrease Cuba's dependence on traditional fossil fuels, the government is currently taking steps to diversify its energy mix, reports Bloomberg. According to the U.S. Energy Information Administration Cuba produces less than one third of the crude oil it consumes. Cuba will focus on wind farms and power plants fueled via bagasse, a by-product of sugar cane.

Renewable Energy

By EOG

The Impact of Gulf Aid on Egypt's Economy

The unrest following the removal of Former President Mohamed Morsi has heightened the post-revolution impact that declining tourism revenue and decreasing foreign investment have had upon Egypt's economy. In the wake of Morsi's ouster, and sensing both Egyptian need along with a broader political or economic opportunity, three Gulf countries pledged billions of dollars in aid.

By Laura Raus and John Pastrikos

Details of the Aid

A total of USD 12 billion has been pledged to Egypt. Five billion came from Saudi Arabia, four billion from Kuwait, and three billion from the UAE. This aid is composed of six billion in interest-free deposits, three billion in grants, and three billion in petroleum products. By mid-September, USD seven billion had already arrived. Amazingly, this recent Gulf aid amounts to 5% of Egypt's GDP. However, it is far less than the country's budget deficit, which the Ministry of Finance currently estimates to reach USD 27 billion in 2013/14.

Since the removal of President Mubarak in 2011 the Egyptian economy has obviously been on a downward spiral characterized by rising inflation, falling government revenue, and dwindling energy supplies. Amidst this rapidly deteriorating economic situation, the Morsi administration was not at all shy about soliciting support from regional governments and international entities such as the IMF. Last November for example, the EU pledged USD 6.4 billion for Egypt over several years on the condition that the transition towards democracy continued. Similarly, Qatar supported Morsi's government with USD 7.5 billion.

Opinions regarding the underlying motivations of neighbors and international organizations are numerous. "I think the main reason that Arab countries give aid to Egypt is that they do not want to see instability in Egypt," said Haider A. Khan, Professor of Economics at the University of Denver. "They perceive that they have political interests in keeping the country afloat financially and they hope to exercise leverage over Egyptian leadership" added Dalibor Rohac, a Policy Analyst at the Cato Institute. Of course, it is important to note that, with the exception of Qatar, the aid announcements came almost immediately after Morsi's fall. According to John Salevurakis, Associate Professor of Economics at AUC, "This is likely related to Gulf States being quite anxious over the rise of political Islam and recognizing that the Muslim Brotherhood as a broader political entity could potentially threaten long standing domestic monarchies." Supporting a post-overthrow government, ensuring a ready supply of fuel and other necessities, and smoothing over the international concern relating to the Egyptian Pound's stability therefore makes a great deal of sense to the Gulf governments.

Qatar is of course the exception as the country continually supported the Muslim Brotherhood while in power. Even post-overthrow however, Qatar fulfilled its pledge to provide five cargo ships full of LNG to Egypt despite simultaneously condemning the Egyptian military for its violent crackdown on the Muslim Brotherhood and its supporters. Recently however, numerous media outlets reported that negotiations between Egypt and Qatar had halted amidst political tensions. Talks to buy an additional 13 ships full of LNG have stalled. Further, on September 19th it was announced that Egypt planned to return USD two billion worth of aid to Qatar due to a lack of agreement between the governments regarding proper "securitization" of said aid. Of course, whether this is actually the case is not clear. It is entirely possible that political disagreements rather than financial realities ensured that the aid would be returned.

Use of the Aid

The Egyptian government plans to use this Gulf aid to boost the economy rather than directly filling contemporary budget gaps. "We will seek to pump more new funds into the economy and not follow austerity measures," explained Finance Minister Ahmed Galal in a July interview with Reuters. He further noted that, "We do not want to increase taxes sharply…and we do not want to lower spending in a way that will slow a revival of the economy." Simultaneously, Egypt has announced that it plans to increase the minimum wage for the huge population of public sector workers by more than 40%. Further, on August 28th the government approved additional domestic fiscal policy totaling USD 3.2 billion. According to the Deputy Prime Minister Ziad Bahaa el-Din, it will focus on labor-intensive projects and services that help the poor. Transport infrastructure as well as water and gas supplies are among the fields that will benefit from the new investments. Planning Minister Ashraf El Arabi stated in a press conference that a portion of the Gulf aid would also be invested in housing, education, and health.[1] It is quite frankly, not clear how this is all possible while also meeting forecast reductions in the budget deficit to 9% of GDP from 14%.[2] It is however clear that different segments of the Egyptian political and economic spheres have very different needs and that the longer term economic objectives in Egypt do not necessarily exist in concert with short run necessities.

Apparently, the recent Gulf aid will also be utilized to boost Egypt's foreign currency reserves. In 2011 Egypt's reserves stood at USD 36 billion. At the end of June 2013, they stood at USD 14.9 billion. After receiving aid from the Gulf countries in September, the Central Bank of Egypt sold USD 1.3 billion from its foreign reserves at auction to local banks to help pay for strategic imports. This is the highest amount sold since the auctions started last December.[3] There have also been reports that the Gulf aid will help Egypt pay its dues to foreign oil companies. On September 12th, Prime Minister Hazemel-Beblawi said that Egypt is close to agreeing on a schedule for repayment of its six billion dollars in outstanding debt to foreign oil firms.[4] Both of these impacts of Gulf aid are, of course, positive in that they serve to enhance the reputability of Egyptian business in the latter case and present an image of macro-level stability in the former. It remains to be seen however, if these perceived improvements in image are permanent and tangible.

Impact of the Aid

It is also important to note that the influx of aid from the Gulf has had a positive impact upon Egypt's stock market and currency. As of mid-September, the stock market was up 15% and the pound had strengthened 1.9% since Morsi's exit. Egypt has also enjoyed lower interest rates since some of the aid arrived. This has reduced the government's debt servicing costs by 2-2.5%. Despite such positive indicators, Egypt's credit rating has not improved. On July 24th Moody's affirmed Egypt's CAA1 government bond rating (very high credit risk) and reasserted its negative outlook. According to analysts, this negative view is due to the fact that the Gulf aid offers only temporary relief to Egypt's economy, which still requires thorough reforms.[5]

Experts also debate the utilization of the Gulf aid and the role it might serve in the sphere of public investment. "I think this is a fatal mistake," said Rohac. "First, Egypt's economic problems are structural, not cyclical. The country does not need to be 'stimulated' with more spending; rather it needs a predictable institutional environment, stable public finances, and more market flexibility. It would make sense to use aid to buy popular support for the difficult economic reforms Egypt needs – that way employment can be generated and sustained even after the aid money disappears." It seems to Dr. Salevurakis at AUC however, that "buying popular support is something best done with employment and that employment can in turn generate a stable and predictable institutional environment." He makes the assertion that "structural change can only really happen by first solving apparently cyclical problems and improving the immediate welfare of the citizenry." However, Rohac argues that, "Aid from the Gulf is hardly a substitute for the damaged economic ties with the West - both trade and tourism have been heavily affected by the political events and that's something that aid will not fix. Unless significant reforms are adopted, the prospects remain grim." He does not however, specifically address the nature of these reforms and the short run political and social cost that such economic manipulations might have.

Conversely, Associate Professor of Economics at Indiana State University Bassam Youssif, believes that the investment package is "a reasonable stimulus to overcome an economic slump." Nevertheless, he also cautioned that, "The strategy may prove to be unsustainable so long as the political impasse and instability continues. It does not, by itself, tackle some of Egypt's long-term structural issues." He continues to note that the aid could be harmful if it serves as a short-term measure, which effectively delays necessary reform. Youssif concludes by asserting that there exists little chance for reforming the subsidy system "especially as the Arab spring brought forward more, not fewer, populist economic demands and also because economic liberalization is associated with crony capitalism among large sections of the population." The issue of subsidies is of course, always of primary concern in Egyptian economic circles. They are considered by many to be an element of the society that Egypt cannot economically afford and simultaneously something Egypt cannot politically afford to eliminate.

More Aid or Successful Reforms?

Naturally, the motivation of the Egyptian government to implement painful but necessary reforms may depend upon how long Gulf states are prepared to keep Egypt's economy afloat. Fortunately, there are signs that they are willing to provide more aid. The Saudi Foreign Minister Prince Saudal-Faisal noted in August that, "Muslim nations are wealthy with their people and resources and will not shy away from offering a helping hand to Egypt." However, Dalibor Rohac cautions that Gulf countries have been unreliable donors in the past. He added that, "The amounts already promised are quite extraordinary, so I would be surprised if the inflow of aid and short-term loans on this scale continued beyond a year or so."

To at least partially counter this argument, the Assistant Expert at the Office of the Minister of Planning, Marwa El Arif, stressed that Egypt will seek future Arab investments rather than aid. In keeping with this, Egypt recently offered the Saudis investment opportunities valued at USD 4.8 billion in a wide range of fields.[6] El Arif went on to diminish the significance of the IMF in the Egyptian economic landscape noting that, "For Egypt, the amount of loan is not important, but the IMF loan gives a certificate of trust in the Egyptian economy and its capacity to overcome the current challenges." Ahmed Galal took this assertion a step further on August 28th noting that Egypt does "not currently have the desire or the need to ask for assistance from the IMF."[7] Given the impact that the IMF refusals had during the Morsi era, this seems a very bold assertion.

Such an aggressive stance could only be justified (and such lofty goals as described above could only really be met) with some economic austerity, which, in and of itself, is a politically bold and possibly dangerous course of action. Nonetheless, the government does plan to go ahead with its subsidy reform… but moderately. "I promise to lay down a program for partial rationing of subsidies before the current cabinet's term comes to an end," said el-Beblawy. He continued to note that, "It shall be carried out over several years after which subsidization would not disappear completely, but rather be affordable for the state."[8]

In Haieder Khan's opinion, it is obviously a good idea to implement any reform gradually. "Shock therapy doesn't really work," he said cautioning that, "Not being committed also doesn't work. The government should be firm but tactical, very specific about what is the timetable for the reform but also flexible." Nevertheless, some doubt if the reform will go far enough. "I do not really see the current reform attempts in places like Egypt or Morocco as fundamentally different from the previous – half-baked and ultimately failed – attempts to reform subsidies," said Dalibor Rohac. "A successful reform of the subsidy system will have to be, in my view, fairly radical, quick, and simple to implement." Dr. Salevurakis disagrees noting that, "Subsidies are a fixture of the Egyptian economic landscape that, while they must be made more efficient over an extended time period, cannot be eliminated quickly without generating social and/or political instability that ironically will only increase the need for the subsidies themselves. The options faced presently are actually quite simple… embrace this substantial inefficiency or ultimately expect even greater and more unpredictable forms of inefficiency and economic stagnation as a result."

Conclusion

The manner in which all of the above realities properly mesh is difficult to imagine. There is no doubt that Gulf aid provides a vital lifeline for Egypt's economy and that fundamental reforms are still needed to avoid the economy collapsing in the longer term. However, there do exist shorter-term concerns. First, if this "aid" is to be redefined as "investment", that investment must be made attractive with a stable and credible political environment and a socioeconomic sphere that is predictable and ordered. It seems that this is possible, but not terribly likely if the Egyptian government is quibbling with the Qataris over the terms of "securitizing their assistance." Further, it seems that highly necessary government investment in infrastructure and employment is a bit incongruous with attempts to decrease the budget deficit. Simultaneously, reducing the budget deficit might necessitate even moderate tax increases that will depress the economy even further. Simultaneously, even moderate rationalization of the extant subsidy system seems dangerous when tourism is still substantially unrecovered from 2011 and broader macroeconomic concerns have a great portion of the population on the edge of desperation. It would therefore seem that a good many ministries have their own individual objectives and that these do not necessarily exist in concert with one another. These arms of government of course form a whole political body engaging in a juggling act hoping to keep the economic, social, and political spheres in the air simultaneously. These are of course all objects that have been dropped before and we all sincerely hope that history does not repeat.

1. Bloomberg, "Egypt Bets on Persian Gulf Aid to Boost Economy as IMF Shunned." August 29, 2013.
2. Reuters, "Egyptian Cabinet Approves USD 3.2 Billion Economic Stimulus Plan." August 28, 2013.
3. Aswat Masriya, "Egypt: Foreign Reserve Reaches USD 18.9 Billion."
4. Reuters, "Saudi Arabia studies report on Egypt's financial needs." August, 29 August 2013.
5. http://www.worldbulletin.net/?aType=haber&ArticleID=113025
6. http://www.arabnews.com/news/464072
7. Bloomberg, "Egypt Bets on Persian Gulf Aid to Boost Economy as IMF Shunned." August 29, 2013.
8. Daily News Egypt, "Egypt's Budget Deficit to Decline in 2013/2014 Fiscal Year." July 31, 2013.

Implications of Apache's Asset Sale

Apache, one of the largest oil producers and US investors in Egypt, recently announced that it has sold a 33 percent minority interest in its Egypt operations to China's state-owned petroleum company Sinopec International Exploration and Production Corporation. This caused some to wonder if this is the first sign of oil and gas companies fleeing Egypt due to political turmoil. Optimistically however, the deal may actually mark another trend, China's growing influence in Egypt's energy sector.

By Laura Raus

Impacts of Egypt's Turmoil

Even though Egypt's recent unrest has not directly affected petroleum production, political instability still had a negative impact on the country's energy sector. According to Tom Quinn, a research analyst for Wood Mackenzie, "A number of operators have evacuated their non-essential expat employees from the country. Upstream investment has been delayed by administrative hold-ups brought about by a lack of clear leadership at regulatory authorities EGPC, EGAS and the Oil Ministry. Delayed payments to international oil companies also continues to be a source of concern." According to Mark Hanson, an equity analyst for Morningstar, some companies have also experienced minor delays in production.

Apache, which has invested more than USD 10 billion in Egypt's energy sector since 1995 while producing 100,000 barrels of oil and 350 million cubic feet of gas per day over the last year, says its exploration and production operations have not been affected by the recent political turmoil. Despite this, the company announced on August 29th that it sold a 33 percent minority interest in its Egyptian operations to Sinopec for USD 3.1 billion. The deal creates a joint venture between the two companies in Egypt under which Apache will remain the operator. As a result of the sale, the share of Apache's oil and gas production from Egypt is expected to fall to 15% from the current 20%, whereas Sinopec's production will grow by 9%.

According to analysts, the deal stems from the fact that Apache's stock performance had recently lagged its peers as investors considered its Egyptian business risky due to political turmoil. Region Vice President and General Manager of Apache Egypt Thomas M. Maher explained, "Steve Farris, Apache's chairman and chief executive officer, said many times that we were looking for ways to validate the value of our Egyptian assets because investors have not recognized the importance of this asset to Apache. This transaction permitted Apache to bring in a strong partner while retaining a 67 percent interest and operatorship." Brian W. Foote, a global E&P analyst for Clarkson Capital Markets, commented, "They believe that the stock market was not giving a proper valuation to their Egyptian assets."

Apache said that the sale was a part of its boarder strategy to sell USD 4 billion in assets by year-end in order to reduce its debt and provide cash for developing its US oil plays. According to Thomas M. Maher, "Apache's successful exploration and development programs in Egypt have been an important contributor to both growth and cash flow for many years. We are also taking meaningful steps to rebalance our portfolio to better deliver the full potential of our deep North America onshore resource inventory." It is one of the several US-based energy companies that are divesting assets abroad in order to concentrate their efforts on North America.

Apache has expressed their optimism for the partnership with Sinopec, as well as the possibility of cooperation on future projects. Thomas M. Maher stated, "This transaction marks the first step in a global partnership with Sinopec. We look forward to the growth and value generation ahead for both companies through the expansion of our collaboration to other projects. This will be a strong partnership. Sinopec's technical expertise compliments our 20 years of experience operating in Egypt and creates an alliance that will continue to explore and deliver the tremendous hydrocarbon resources in the Western Desert." Maher stressed that Apache will continue to undertake projects in Egypt, pointing out, "Apache is the most active driller in Egypt. In the second quarter, we reported seven oil and gas discoveries that indicate to us that there are significant hydrocarbon resources still to be discovered and produced across concessions that total 9.7 million acres."

Sinopec has said that it is aware of the political uncertainties in Egypt but is focused on long-term development in the region. Robert Christensen, an analyst for Canaccord Genuity, noted that the company also has Egypt's unconventional resources in mind, adding that the joint venture with Apache provides Sinopec with valuable learning opportunities.

Investors Surprised by the Deal

After the sale, several analysts expressed surprise at how quickly Apache had managed to strike a deal, considering the current political uncertainties in Egypt. "The price was far higher than many investors had contemplated," added Christensen. At the end of 2012, Apache had 124 million barrels of oil and 900 billion cubic feet of gas in proven Egyptian reserves.

When Apache bought Egyptian assets from BP for USD 650 million in 2010, while the reserves were smaller, it paid USD 32.5 a barrel, whereas in the deal with Sinopec the price was USD 33 a barrel. "We think it is a fair market price," noted Quinn. "The deal does give a signal to the stock market that these assets are both productive and profitable," said Foote. Accordingly, Apache's shares jumped 8.4% after the sale, its sharpest intraday hike since March 2009. The deal led several analysts to reconsider the value of Apache's remaining Egyptian assets.

The sale can of course have a positive impact for other oil and gas companies with significant exposure to Egypt, such as BG and Eni, by raising the confidence of their investors. "This deal shows that there is still an appetite for investment in Egypt, especially by companies with long-term views on the country's vWWW stability," said Quinn. He added that the attempts of some operators to pare down their interests in Egypt over the past year have been largely a result of the country's economic problems rather than the current political crisis. For now, Egypt's economic woes also seem soothed by the aid that some Gulf countries have pledged to it and recently the government said it was also agreeing to a schedule for repaying its USD 6 billion in outstanding debt to foreign oil companies. "Right now the rescheduling of the debts is under review in exchange for the companies investing in drilling and exploring for oil as well as increasing production and such things," informed Finance Minister Ahmed Galal.

According to Hanson, guarantees that the oil and gas sector will not be nationalized or contracts will not be re-negotiated, would also go a long way to reassure companies. Christensen believes that Egypt's future governments will leave the sector relatively untouched, considering its significance to the national economy. The confidence of some in Egypt's energy sector is also reflected by the fact that Total recently agreed to buy Chevron's service station network in the country. "Total's vision of Egypt over the medium-to-long term is positive," said the company's CEO, Christophe de Margerie.

More Chinese Investments to Come

Rather than a sign of energy companies fleeing Egypt, the Apache sale also clearly marks another trend, namely the growing influence of China in the oil and gas sector. Over the past five years, Chinese companies have made 83 overseas oil and gas purchases worth USD 100.7 billion. In February, CNOOC brought the Canadian firm Nexen for USD 15.1 billion, which is China's biggest overseas energy acquisition ever. However, after CNOOC burned its fingers in 2005 with a USD 18.5 billion takeover bid for the US firm Unocal, which was withdrawn due to political objections, Sinopec has focused on acquiring minority stakes in overseas companies rather than takeovers.

Wood Mackenzie forecasts that China's oil imports will rise from 2.5 million bpd in 2005 to 9.2 million bpd in 2020, whereas US imports will fall from 10.1 million bpd to 6.8 million bpd in the same period. While the US is set to become more independent of Middle Eastern oil thanks to its shale boom, China's dependence on the region's energy is growing. The Middle East already accounts for 60% of China's oil imports with the largest upstream projects of China's national oil companies in the region being in Iraq and Iran. Sinopec and CNPC were quick to invest in Iraq's oil assets in the aftermath of the 2003 US-led invasion. The Rumaila oil field, which CNPC is developing together with BP, accounted for about a third of Iraq's oil output last year and is also the top-producing overseas project of the Chinese company. Conversely, PetroChina is in talks with ExxonMobil to jointly develop the West Qurna-1 oil field. It is important to note, however, that the activities of Chinese energy companies in Iran have been hampered by the international sanctions imposed on the country. The Iranians also suspended the contract of CNOOC for the development of the North Pars gas field in 2011 due to lack of progress, and CNPC withdrew from developing Phase 11 of South Pars last year for the same reason. Additionally, CNPC's development of the Azadegan oil field and Sinopec's work on the Yadavaran oil field have suffered delays.

Egypt's petroleum sector was, until the Sinopec's purchase, largely untouched by the Chinese but (given the issues experienced in Iran) diversification into North Africa makes a great deal of strategic sense. The purchase marks Asia's largest oil refiner and China's second-biggest oil producing firm's entry into Egypt's upstream sector. In addition, the sale is the company's biggest deal in the Middle East. "I think the motivation of both Chinese and Indian firms to secure supplies will drive additional purchases in Egypt and elsewhere in the world going forward," said Hanson. However, Quinn is doubtful if the Chinese have significant interest in investing throughout Egypt's petroleum sector. "Chinese oil companies have generally been interested in the past in acquiring large producing assets to increase their production streams. With much of Egypt's upstream sector consisting of small to medium sized assets, there may be less scope for this type of investment, unless they can consolidate by combining several assets," he explained. "This is the first major investment of the Chinese (in Egypt)," noted Christensen. He continued to state that, "Other Chinese companies will be observing how this investment is being treated and taking their cues from it. If they get positive cues, we could see more Chinese investments coming to Egypt in all forms." Egypt, as well as Saudi Arabia are hopeful that China will invest in their renewable energy sectors. "We hope Chinese companies will visit Egypt's renewable energy projects and establish joint ventures and exchange experiences," said Mahmoud Mustafa, a senior official at Egypt's Ministry of Electricity and Energy.

Conclusion

Unless Egypt's political turmoil gets worse, it is not likely that oil and gas companies abandon the country. This is a sector well versed in operating under conditions of relative uncertainty. Given patterns of global demographic change and economic development as we slowly exit the recession, Egypt may in fact receive additional investments from China in the future. These will likely boost the development of its energy sector and macroeconomy at large. The experts to whom Egypt Oil & Gas spoke noted that there are no particular risks related to the growing Chinese influence in Egypt's petroleum sector. According to some analysts, Apache's Egyptian business may see more investments in exploration thanks to this deal with Sinopec. Otherwise, they do not expect significant changes in day-to-day operations.

Insurgency in Sinai and Suez: Threats to the Oil and Gas Sector?

Since the ouster of Morsi much of Egypt has been in a state of fluctuation. In the realm of oil and gas, the past summer has witnessed a few signs of concern. In July a consortium of Indian companies declined to sign a production sharing agreement for previously awarded concession blocks.

By Maya Moseley

Shortly after, gas major BG publicly expressed concern over the loss of future profits as the government is diverting more gas than was agreed to, in order to meet the growing demands of the domestic market. However, Essam Taha, an attorney specializing in oil and gas contract at Zaki Hashem and Partners explained that the government's actions are permitted under the contract and "such procedures shall not have any negative impact on the future investment in Egypt's petroleum sector, as these procedures are applied in most of the countries applying a production-sharing model." Beyond the issues of delayed payments and production sharing, IOC's are now facing increasing security challenges impacting vital oil and gas transportation routes. Egypt Oil & Gas spoke to regional security analysts on the threat that insurgents pose to the country's oil and gas sector.

Suez Canal

Approximately 1.4 million barrels of petroleum products and 800,000 barrels of crude products transit through the Suez Canal each day. Thus, the canal is of strategic importance not only to Egypt but also to the global oil and gas market. Threats to the canal are nothing new, however, recent attacks on vessels passing through the canal certainly increase concerns.

On August 31st, the Cosco Asia cargo vessel was attacked while passing through the Suez Canal. Following the attack, the military arrested three people for allegedly firing automatic weapons at the vessel. However, in a contradicting statement, Mohab Memish, head of the Canal Authority reported RPGs were used in the attack. Similar uncertainty surrounds the identity of the perpetrators as one military source reported, "the operation was a random operation that is not backed by an organization.[i]" This information was contradicted a few days later when al Furqan Brigade released a video showing two men firing RPGs at a cargo vessel that appears to have the Cosco label on the side of the ship. Additionally, al Furqan Brigade issued a statement claiming responsibility for the attack. In the statement the group condemned the ouster of Morsi, as well as the Muslim Brotherhood for participating in elections. It went on to promote the "ammunition box and not the ballot box." According to the statement the group targeted the Suez Canal as it "has become a safe passageway for the crusader aircraft carriers to strike the Muslims."

While little is known about al Furqan, the group also claimed that they carried out a similar attack on the Suez Canal in late July. At the time of the alleged July attack local residents reported explosions, however, after investigating the reports the military said that there had been no explosions in the area[ii]. Similar to their most recent attack, the group posted a video of the alleged assault, which remains unverified. In regards to the most recent video, Gerry Northwood, COO of the maritime security company GoAGT explained, "It is clear that the video is designed to be a propaganda statement of intent and capability to conduct attacks."

According to Northwood, attacks targeting vessels in the canal are likely to persist, "as this will be a way of getting at the Egyptian government's financial base, while at the same time making a point to the international community." Northwood explained the vulnerability of the Suez Canal, "Attacks against vessels at sea are technically difficult to execute successfully. For this reason, attacks in the choke points or the approaches to harbors and terminals are most likely." However, Northwood pointed out, "we should not underestimate how difficult this kind of action would be for a terrorist group to achieve, and the determination of the Egyptian government to keep canal open."

Northwood cautioned, "An ongoing campaign of attacks against ships transiting the canal is more likely and may put some owners off using the canal. However, alternative routes are expensive and time consuming. Most will probably continue to use the canal, hardening their vessels as necessary." Some shipping companies are already considering precautionary security measures, informed Hany Maamoon, a specialist in Egyptian maritime law at Eldib Pandi. Other analysts have pointed out that the expansion of the Panama Canal may provide a new alternative route for US shippers heading to Asian markets in the future.[iii] However, the expansion is not set to be complete until mid-2015 so that option remains off the table for now.

While the Cosco attack did not affect shipping traffic through the canal, the long-term impact of such attacks on vessels remains unsettling. As Maamoon, explained, if "the navigation in the Suez Canal is significantly interrupted, this will have a big influence on the Egyptian economy...given that the Suez Canal is presently one of the main sources of foreign currency." The government is aware of the vital need for security of the canal and has increased efforts to protect the passageway. Operations are "being jointly carried out by the Egyptian Navy, the Air Force, as well as the Infantry Forces" in addition to areal surveillance by helicopters, informed Maamoon.

The significance of vessels being unable to transit through the Suez Canal remains debated but some analysts suggest the impact maybe overstated. As David Unger of the Christian Science Monitor points out, "The shifting of the global energy landscape has helped minimize the spikes of unrest in Egypt."[iv] The time and costs of alternative routes are often cited as key factors that would impact markets if the canal was disrupted. However, Drewry maritime research group asserts that vessels could safely increase their speeds to 22k in order to avoid additional transit time while passing around the Cape of Good Hope.[v] The report does point out that the longer route would incur higher costs. Thus, any disruption to the Suez Canal would impact the international markets but these impacts would not be catastrophic to international markets. Egypt would suffer the greatest losses from any disruption due to the loss of foreign revenue.

Sinai Peninsula

Similar to the Suez Canal, Egypt's Sinai Peninsula is strategic to the transport of oil and gas. Additionally, the region is host to a handful of onshore and offshore fields. Following the ouster of Morsi, Islamist militants in the Sinai have launched an insurgency in the region. While the almost daily attacks generally focus on the police and military, oil and gas infrastructure in the region has been targeted as well.

On July 7th militants bombed the Arab Gas Pipeline near the town of EL Arish in North Sinai. Approximately 12 kilometers of the pipeline, which carries 100 million cubic feet of gas per day to Jordan, was damaged.[vi] Another attack on the pipeline was reported by a local official on July 23rd.[vii] However, Taher Abdel Reheem, chairman of EGAS, denied the second attack[viii]. Reheem informed Dow Jones that they were "still waiting for the army to secure the area." At the time of writing, the pipeline had yet to resume operations. El Fagr news reported that the Egyptian government informed Jordan that the pipeline operations would remain suspended so long as insecurity persists in the Sinai.

The increased insurgency in the Sinai has also spurred tentions between the Egyptian government and Gaza's Hamas, who have been accused of supporting militants in the Sinai. Jordan has suffered serious consequences due to the attack and subsequent suspension of fuel supplies. Lucy Jones, an analyst specializing in the region at Control Risks explained, "The implications for Jordan are also significant, from an economic perspective as well as the security angle. Egyptian gas imports would normally represent 80 percent of the fuel the kingdom uses for electricity generation; pipeline attacks in North Sinai have caused frequent interruptions to imports, forcing the kingdom to purchase alternative fuel at higher costs. Jordan is in dire straits financially, and substituting Egyptian gas with other fuels places additional stain on the budget."

According to Jones, "Militant activity in Sinai will not in itself prevent IOCs from entering the Egyptian market, particularly as the majority of oil and gas fields are located outside the Sinai. Nevertheless, the growing threat posed by militancy adds to the already complex operating environment and will translate into increased security costs for foreign investors." Similarly, energy expert Robin Mills explained, that companies in Egypt are unlikely "to declare force majeure unless there are major strikes, protests, or violence that affects oil infrastructure or workers," noting, "the obvious exception of the Sinai gas pipeline." If attacks on oil and gas infrastructure remain sporadic and centralized in the Sinai then the impact on the sector will be limited, but if they increase and spread into other regions IOCs may begin to implement precautionary measures or reconsider their investments.

Tackling the Issues, Ensuring the Future

The Egyptian government continues to launch military campaigns against insurgents in both Suez and Sinai. In addition, they are providing security to companies with existing operations in the Sinai. However, it is extremely difficult to secure everything when you are talking about hundreds of miles of pipelines and canal banks. Many IOCs are used to working in unstable environments and know the necessary precautions, but additional security measures come with additional costs. As the sector is already marred with debt and delayed payments, insecurity may deter some future investment. However some IOCs are likely to continue to invest in the sector, as Mills explained, "if they can get specific assurances from the government…but of course major new investments will be deterred." Ultimately, the military's ability to prevent future attacks on oil and gas operations and transportation routes will determine the long-term impact of insecurity on future investments and operations in Egypt.

i. Reuters, Video Shows Two Men Firing RPGs at Ship Transiting Suez Canal. Sept 5, 2013.
ii. All Africa, Egypt: Military Spokesman- Navigation in Suez Normal, No Explosions Near it. July 31, 2013.
iii. International Business Times, Suez Canal Attacks: Will Security Threats Make the Panama Canal a Better Option? September 21, 2013.
iv. Christian Science Monitor, US Destroyers New Syria. Oil Market Likely to Shrug Off a Strike. August 27th, 2014.
v. Drewry Container Insight, Suez Canal Closure Risk Again in the Spotlight. September 15, 2013.
vi. Zawya. Egyptian Insecurity Prevents Work on Bomb-Hit Gas Pipeline to Jordan-Official. August 20, 2013.
vii. Ahram. July 23, 2013.
viii. Egypt Independent. Petroleum Ministry Denies Gas Pipeline Bombing. July 23, 2013.

The Redefining of the Muslim Brotherhood

The election of the Muslim Brotherhood's candidate, Mohamed Morsi, as the president of Egypt seemed to signal a promising future for an organization that was banned for the nearly six decades leading up to the January 25th Revolution.

By Robert Mogielnieki

Yet a year after his election, the Egyptian military removed Mohamed Morsi from power, arrested prominent leaders in the Muslim Brotherhood and initiated a violent crackdown on the former president's supporters. With many of the group's leaders either imprisoned or on the run, the rank and file members of the Muslim Brotherhood appear more detached and marginalized than ever. Moreover, a recent court ruling bnned the Muslim Brotherhood and its affiliated groups, a move which may force the group underground. The Muslim Brotherhood must choose its next moves very carefully as they are at a critical point in which they can either reorganize into a cohesive political entity or return to the murky future of an underground organization. At the same time, the Egyptian military must allow the Muslim Brotherhood to either transform themselves into a more effective political force or fail on their own accord.

The Muslim Brotherhood's Political Islam

While the Muslim Brotherhood was not initially intended to be a political organization, the group's transition into the political realm was inevitable. Hassan Al-Banna founded the Muslim Brotherhood in 1928 as a youth club that stressed moral and social reform within the religious framework of Islam. Greatly concerned by what he viewed as the increasing Westernization of Egypt, Banna believed that a return to Islamic values was necessary to counter Western secularism in Egypt. The group did not remain a purely religious organization, however, but rather quickly became involved in Egyptian politics. The Muslim Brotherhood supported the Free Officers Movement of 1952, served as members of parliament during the Mubarak era, and most recently won the presidency and a large number of parliamentary seats following the January 25th Revolution. The Muslim Brotherhood's gravitation towards politics is unsurprising considering that the political sphere gave the group another outlet to promote Islamic principles.

A closer look at the group's ideology further demonstrates why the Muslim Brotherhood's transition into politics was inevitable. Hassan Al-Banna wrote, "We believe the provision of Islam and its teachings are all inclusive, encompassing the affairs of the people in this world and the hereafter. And those who think that these teachings are concerning only with the spiritual or ritualistic aspects are mistaken in this beliief because Islam is a faith and a ritual, a nation and a nationality, a religion and a state, spirit and deed, holy text and sword…The Glorious Quran…considers (these things) to be the core of Islam and its essence." Banna's all-encompassing understanding of Islam extended to all spheres of human activity. In this respect, politics offered another avenue to influence the hearts and minds of more Egyptians.

Perhaps the most interesting piece of the above passage is Banna's assertion that Islam is "a religion and a state", a view which completely rejects the notion of a separation between mosque and state. This conception of Islam clarifies why the Muslim Brotherhood fielded a candidate in the 2012 presidential elections and then sought to codify Sharia in the new constitution. Moreover, these actions by the Muslim Brotherhood are actually in keeping with the group's ideology and do not represent a secret Islamization scheme as many have suggested. The Muslim Brotherhood was very candid about their Islamic agenda, and the majority of Egyptians who participated in the 2012 elections voted for Mohamed Morsi in light of this ideology. The Muslim Brotherhood will continue to exert influence over Egyptian politics, either by working with the state or against it. The main question then becomes: how do you encourage constructive political participation?

The Dangers of Marginalization

Overwhelming historical evidence suggests that banning the Muslim Brotherhood and marginalizing its members will only exacerbate the political crises in Egypt. In 1952, the Muslim Brotherhood supported the Free Officers Movement and consequent July 23rd Revolution which removed King Farouk from power. Two and a half years later, the Revolutionary Command Council repaid that support by officially banning the Muslim Brotherhood, thus forcing it to operate as an underground organization. The Muslim Brotherhood likewise participated in the January 25th Revolution which removed former President Hosni Mubarak. Two and a half years later, the military once again intervened and removed former President Mohamed Morsi. With ongoing discussions and lawsuits threatening to ban the group, history appears all but ready to repeat itself. Given the Muslim Brotherhood's past relationship with the Egyptian military, it is unlikely that the group will trust the military establishment for a third time. It appears equally unlikely that the group will be inclined to work with an interim government appointed by the military.

This historic parallel illustrates that a departure from, rather than repetition of, the military's tactics for dealing with the Muslim Brotherhood is long overdue. First, the process of banning the group and marginalizing its supporters will not rid Egypt of the Muslim Brotherhood. Instead, the Egyptian state's former ban on the group revealed that the Muslim Brotherhood thrived underground. As an underground organization, the group was relieved of the tough duties associated with governance. In return, it amassed popular support by providing services like education, food, and fuel that the state was unable to offer to many segments of the population. Given the grave economic situation facing Egypt today, forcing the Muslim Brotherhood underground may actually put them in a better situation to regain popular support while escaping responsibility for insurmountable economic and political problems on a state level.

Second, banning the group and imprisoning leaders also runs the risk of creating martyrs. Eamonn Gearon, a professor of North African politics and history at John Hopkins School of Advanced International Studies (SAIS), explained, "How far the Egyptian military authorities are willing to go in their attempts to have the group outlawed and its membership imprisoned remains to be seen. A similar plan has been tried in the past and found wanting because such a policy provided 'martyrs' for the group. One example of this phenomenon would be Sayyid Qutb, a Muslim Brotherhood member who is still regarded an exemplar. Qutb's execution convinced the 14-year-old Ayman al-Zawahiri of the rightness of fighting against the state, and look where that took us." Gearon's example demonstrates the inherent danger posed by creating martyrs and providing them with a platform to influence future extremists like the current leader of al-Qaeda.

Third, forcing the group underground without many of its leaders removes organizational accountability and encourages the formation of fringe groups. Most of the arrested leadership of the Muslim Brotherhood maintain the group's commitment to peaceful protests to achieve political demands, a claim which has been rightfully questioned by many observers. Regardless of the validity of the leadership's claims, the presence of an active leadership at least gives the group structure and accountability. On the other hand, imprisoning Muslim Brotherhood leaders affords more extremist elements within the group the freedom to act unilaterally. Professor Gearon noted, "The group is regarded by a majority of Muslims who are non-members as a fringe organization, one that is not in line with Muslim orthodoxy." For this very reason, steps should be taken to move the organization away from the fringes and towards the center—not farther into the margins.

The Freedom to Fail

Decision makers in Egypt must recognize that the Muslim Brotherhood will continue to exist as a political force in Egypt. Only after these decision makers understand the group's ideology and political goals can they begin to constructively harness the political support that the group enjoys. The alternative is to resort to the former tactics used by the military to obstruct the group's political ambitions. Yet sixty years of these tactics created a situation in which the organization gained enough support to win the first (mostly) free and fair presidential elections in Egyptian history. Moreover, the military's tactics created martyrs who continue to influence extremists both within the organization and other terrorist groups.

Ineffectual political institutions must be allowed to fail so that they can be recycled or replaced by the public. The best case scenario would have been Morsi's removal through elections after four years of failed governance — a likely scenario after the results of Morsi's first year in office. Given that such an option is no longer on the table, the military and interim government should take steps to bring the Muslim Brotherhood back into the folds of Egyptian political life. An easy first step would be releasing the group's imprisoned leaders. The harder steps will involve convincing the organization to return to politics after what they consider to be multiple instances of betrayal.

The military's removal of former President Mohamed Morsi gave the Muslim Brotherhood another chance to succeed when they could have been left to fail. The Muslim Brotherhood needs to be given the chance to truly fail in politics rather than be forced to quit the scene on the pretext of failure. Who knows, the group may even abandon dictatorial politics for a more moderate platform if given the opportunity. The Muslim Brotherhood's future remains unclear, but it is clear to this observer that the well-known moderateness of the Egyptian public will be more effective than military strong-arming in making that future a constructive one.

Revitalizing a Brownfield:
Kuwait Energy's Area A

This month Egypt Oil & Gas had the opportunity to visit Kuwait Energy's Area A concession located in the Eastern Desert. Accompanied by President of Kuwait Energy Egypt Harry Saul and Vice President of Operations Kamel Al-Sawi, we had the pleasure of touring a portion of Area A's Shukheir field along with Gamal Afifi the Assistant Field Superintendent, Hamid Fathy the HSSE Manager and Eng. Amr Abd Elrahman.

By Maya Moseley

The Area A Service Agreement encompasses 300 sq km. Kuwait Energy is the operator of the block and holds 70 percent of its interest while Petrogas holds the remaining 30 percent. The block is very complex, as it is a brownfield which has been producing since 1960. When Kuwait Energy acquired the asset in March 2008 over 150 wells had already been drilled. Drawing on knowledge from pre-existing wells, as well as data collected upon acquisition Kuwait Energy developed a new model for tapping the field's reservoirs. Mr. Saul explained, "When you have that much information from a brownfield it requires a different skill set to optimize the value." The company took a carefully thought-out approach, as Mr. Al-Sawi explained, "While revitalizing such mature field we embraced multiple objectives, especially maximizing production while minimizing capital expenses, reducing the inevitable decline rate and minimizing the operating expenses. The team collective approach to meet these objectives was the application of practical and focused engineering and geology tied with the application of enabling technologies, using an approach that combines innovation and experience, we have managed to boost the potential of Area (A) significantly, securing a leading role for Kuwait Energy in managing this type of mature fields in Egypt and Middle East."

Kuwait Energy's innovative approach successfully revitalized the brownfield. Through implementing their model, the company was able to drastically increase production from 1,800 BOPD at the time of acquisition to over 7,000 BOPD. Not only has the company achieved a notable increase in production, they have also been able to effectively mitigate the decline of the production rate. For the past five years Kuwait Energy has maintained a production rate above 6,000 BOPD for the concession. Currently, the area holds 45 production wells. At the time of our visit the concession area produced 6,600 BOPD, with the new discovery of Shukheir North West field accounting for almost half of the concession area's production. That said, the company sees even more potential in Area A. Mr. Saul expressed his optimism for the concession saying, "I think there is still a lot of challenging work for us to do in order to fully understand the field… its not a simple pool of oil that you can go in and drill, there is more to be done in order to enhance production from this field."

Kuwait Energy has done an impressive job at optimizing the returns from Area A. In addition to their remarkable production rate, they have also managed to decrease drilling costs. Prior to acquisition drilling costs were around USD 2.5 million to USD 3.5 million per well, but the company has successfully reduced the costs to USD 1.2 million to 1.7 million per well. As Mr. Saul noted, the company "has been able to manage the field in a way to optimize its value."

Kuwait Energy's practical approach is evident in touring the field. While updates continue to be made, pre-existing infrastructure that has retained its efficiency continues to be utilized. It is also notable that the company seeks to minimize its footprint in the area through strategies such as portable camps that can easily be relocated. Additionally, the company also recently installed pipeline to curtail the need for trucking.

Kuwait Energy entered the Egyptian sector in 2006. Kuwait Energy's success in Egypt spans beyond Area A, as it also holds investments in Burg El Arab, East Ras Qattara, Abu Senaan, and Mesaha. In the short amount of time the company has been here, their ingenuity has led to rapid success, including 20 discoveries in the country. The company's production rate in Egypt has flourished from 300 BOPD when it entered the country to 31,000 BOPD at present. Kuwait Energy has even bigger ambitions for its operations in Egypt, as Mr. Al-Sawi informed the company is keen to continue increasing production to satisfy Egypt's domestic demand.

Kuwait Energy Egypt Gives Back to Local Communities

Kuwait Energy aims to provide communities with effective and sustainable development through the company's corporate social responsibility (CSR) initiatives. In the past year Kuwait Energy Egypt has organized a variety of projects to give back to local communities. A few of the recent programs include:

KEE Blood Donation Campaign for 2013

Every year, on 14 June, countries around the world celebrate the World Blood Donor Day. This event serves to raise awareness of the need for safe blood and to thank unpaid blood donors for their life-saving gift. The focus for this year's campaign was "Every blood donation as a gift of life". With this in mind, Kuwait Energy Egypt (KEE) initiated a blood donation campaign on May 29, 2013 where enthusiastic KEE employees came forward and donated blood to help save lives. The campaign, sponsored by the Ministry of Health, was designated for children who are suffering from Thalasemia disease.

Below is the KEE team participating in this campaign.

Distribution of Stationery at Ras Gharib

In February 2013, KEE continued its ongoing aid to a large segment of underprivileged families in Ras Gharib. KEE provided the El Fardous Foundation in Ras Gharib with necessary school supplies. The donations were provided in order to reduce the financial burden on students and their families during the second term of 2013. A small ceremony was held to distribute KEE's contributions to this very important cause. The event was attended by a few government officials from Ras Gharib as well as KEE's Area A field management.

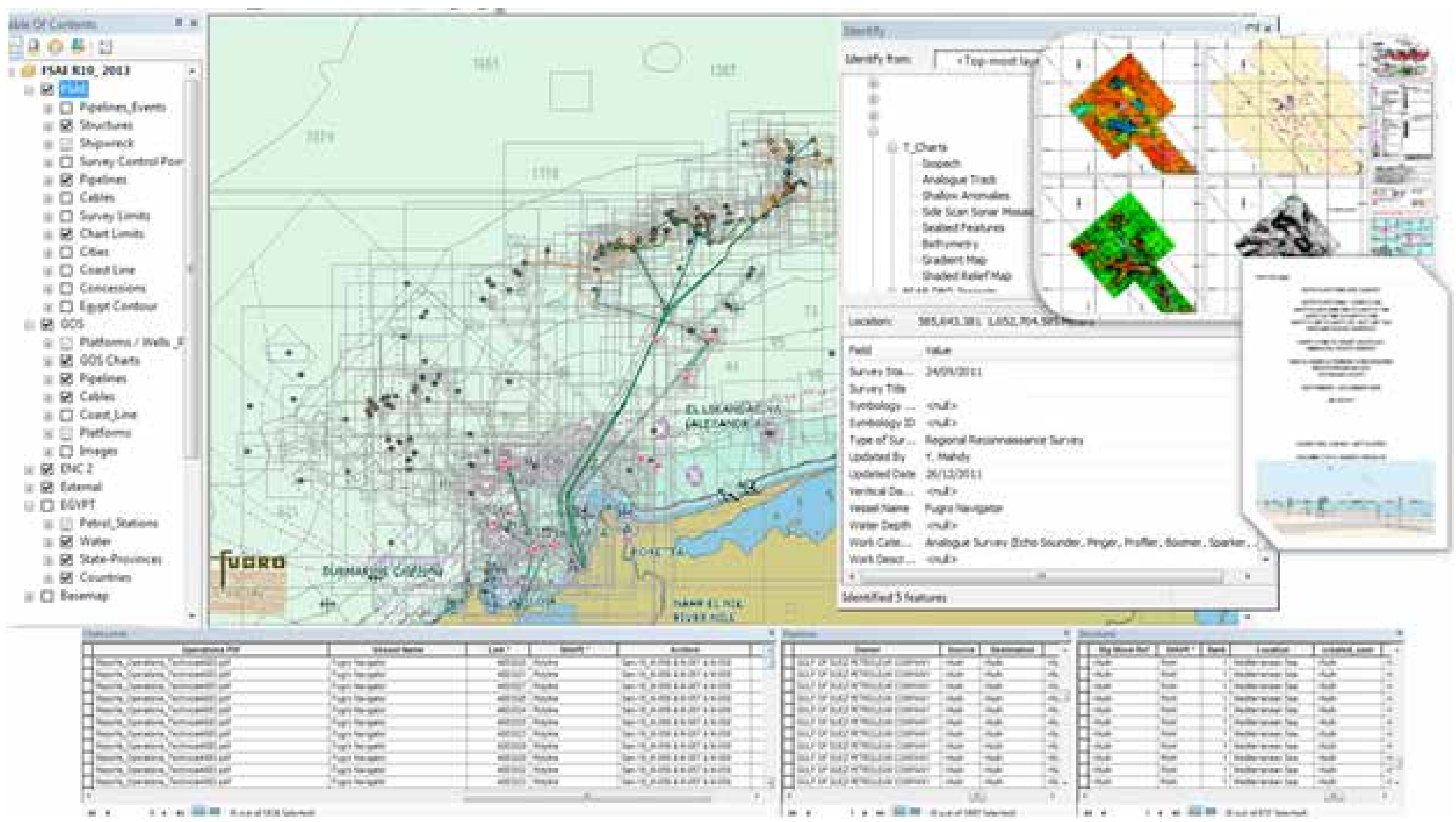
KEE Blanket Campaign in the Upper Field

As a part of the individual CSR awareness program KEE employees together with their families and friends participated in a campaign called "When a blanket is no longer just a blanket!" During this winter campaign KEE employees donated blankets to Dar El Orman, a charity foundation that provides assistance to locals in Upper Egypt. This gesture was strongly supported by KEE employees with the desire to help disadvantaged communities by extending a helping hand to those in need.

Below is a photo during a similar campaign.

Fugro SAE Integrated GIS System for Offshore and Onshore Visualised Data Presentation

By Fugro



During this decade, the GIS (geographical information system) has gradually become an essential product among deliverables of survey projects reports not only in the oil and gas market, but also for many other offshore and onshore construction and civil projects.

Why GIS?

Our clients noticed that they needed their data to be stacked together in an interactive map that includes all sorts of natural and man-made features categorized in a comprehensive user-friendly database. This in return, saves a lot of time and effort in their planning studies.

Proactively, in 2008 Fugro SAE started to build a specialized department for GIS by extensive training and hiring specialized expertise.

After successful GIS system products delivery and database monitoring through our contracts with GUPCO, BP, Burullus/Rashpetco and other major clients, Fugro SAE now maintains a comprehensive database that contains data from all the survey and positioning activities carried out by FSAE together with third-party data as appropriate. The GIS allows fast and easy production of charts that includes information such as bathymetry, seismic profiles, surface and mapping data including pipelines, platforms and other features.

Info Query

Fugro SAE uses ArcGIS for data management. All projects that are carried out are stored in our GIS and the information can be used instantly. The Geographical Information System has been developed over the past years by our specialized team. All previous Fugro SAE projects have been loaded into the database which allows the survey data to be queried for information such as names and types of pipelines, areas of environmental interest, platform types and operator's concession names and particular seabed features. A thematic map has a table of contents that allows the reader to add layers of information to a base map of real-world locations.

The combination of geophysical, geotechnical and all other geospatial aspects of an offshore development in a GIS provides a powerful framework in which to visualise the datasets. By combining data from multiple disciplines in a common framework, correlations between datasets can easily be drawn and relations between data understood.

Site characterisation made easy

Integration of datasets in this way, combined with the understanding of the offshore environment from geological and geotechnical perspectives, provides the beginning of a site characterisation process, with the typical output of such a process being a geotechnical and geological ground model. Fugro uses its global expertise to create site-specific ground models, drawing inputs from the project GIS database and creating ground model output layers to feed back into the GIS.

Once the understanding of a site is formed in this way, the value of a project-specific GIS with an integrated ground model can be exploited to optimise future data acquisition programs, plan facilities and infrastructure and derive inputs for preliminary engineering, using the GIS as a predictive tool for the ground conditions across the site. The below diagram gives an example of a data driven GIS environment, data can be viewed both geographically and in a linked tabular format, queried and plotted.

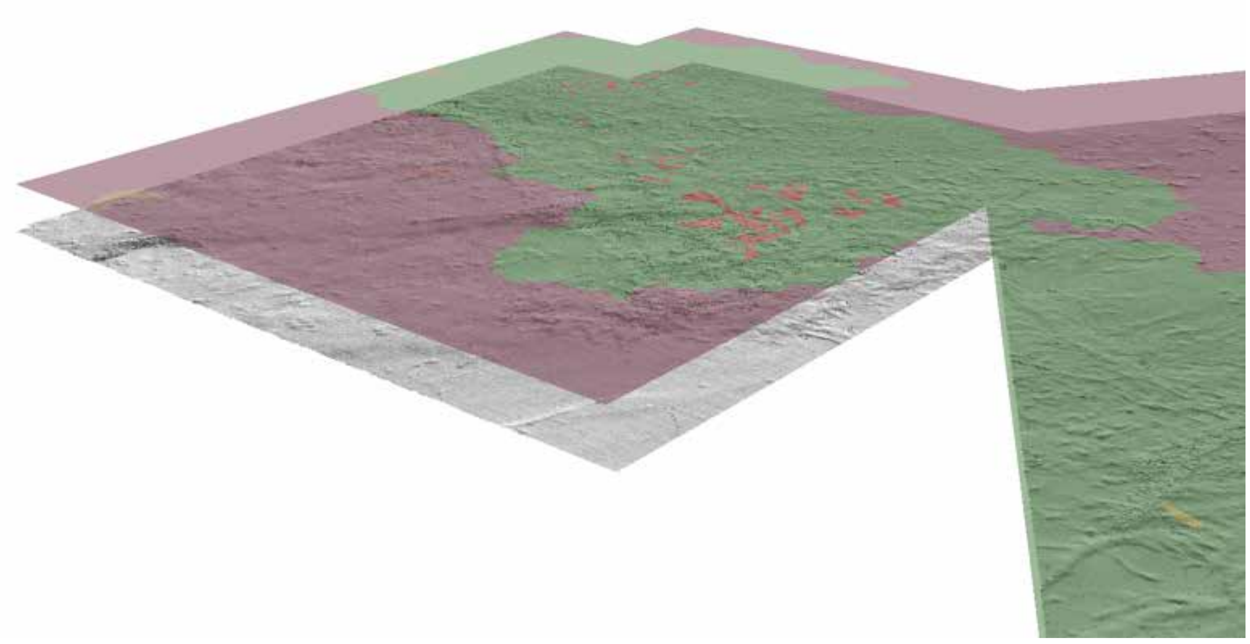
Integration of Survey results

The below image is an example of seabed bathymetry, derived from high resolution geophysical survey data, overlain by an interpreted soil province map, which is a typical GIS-ready output from site-specific ground modelling, incorporating geological, geotechnical and geophysical analyses.

In the near future, survey data will be loaded into the GIS and then the geophysical data will be available for view through internet web pages.

Summary:

Fugro SAE can provide the Client with survey information and geophysical data in shape files, personnel geo-database and file database in a format that allows the user to easily control, query, analyse, edit, display and distribute the data and information. Fugro SAE can manage the database in-house and send data to be viewed using appropriate reader software.

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PICO Sponsors Ain Shams University Racing Team

PICO actively supports numerous activities as part of its commitment to corporate social responsibility. In order to promote education and young people in Egypt, PICO recently sponsored the Racing Team from Ain Shams University. The team will participate in several prestigious international competitions in car manufacturing and racing.

The ASU Racing Team is comprised of passionate young Egyptians from Ain Shams School of Engineering. In cooperation with faculty, students engage in a variety of projects aimed at increasing efficiency in the manufacturing of cars. The university would eventually like to build a research department to specialize in manufacturing.

This is the second time the ASU team participated in the UK Race. The team was recently promoted to Class A, and succeeded in winning the highest ranked Egyptian and Arab Team.

The ASU Racing Team also won 3rd place in the Shell Student Energy Challenge. The ASU team will automatically advance to compete in Shell's Eco-Marathon competition held in Manila, Philippines in February 2014.

PICO is very proud to sponsor the talented youth from the Ain Shams University Racing Team.

Egypt Statistics

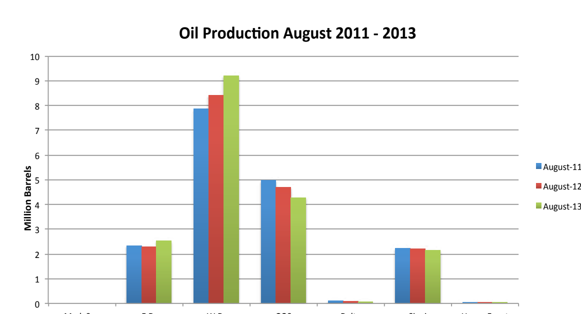
EGYPT OIL&GAS RESEARCH & ANALYSIS

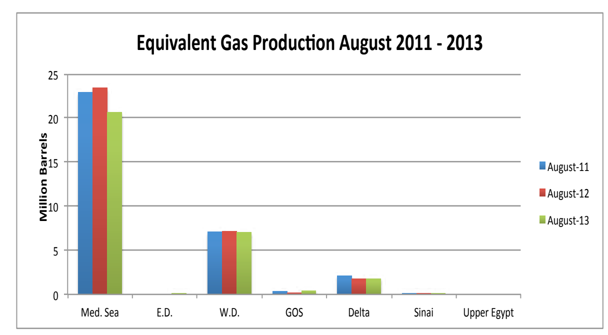
	Oil			Equivalent Gas			Condensate			Liquefied Gas		
	Barrel			Barrel			Barrel			Barrel		
	August-11	August-12	August-13	August-11	August-12	August-13	August-11	August-12	August-13	August-11	August-12	August-13
Med. Sea				22908036	23458571	20684821	1444785	1171055	1251821	370610	371488	390137
E.D.	2338261	2294391	2526668			60000			3291			9614
W.D.	7865040	8409108	9200611	7082321	7188750	7054286	1843038	1575459	1330336	569480	603294	658097
GOS	4974668	4699776	4273778	347857	215714	433929	82705	59974	69959	196664	166748	217293
Delta	109682	79901	68869	2121964	1757857	1803036	187137	137848	174339	89879	95895	124708
Sinai	2235391	2200786	2154193	4643	1071	7857	31096	35452	33383	89072	84709	93096
Upper Egypt	19335	15083	16308									
Total	17542377	17699045	18240427	32464821	32621963	30043929	3588761	2979788	2863129	1315705	1322134	1492945

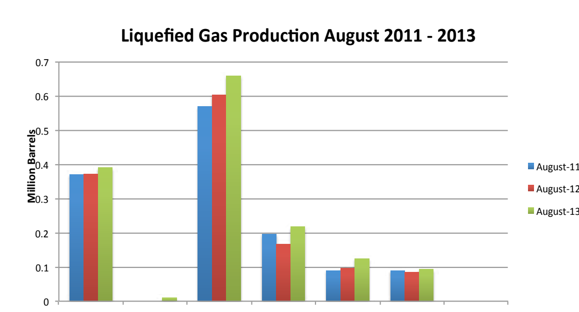
Table 1 Egypt Rig Count per Area – September 2013

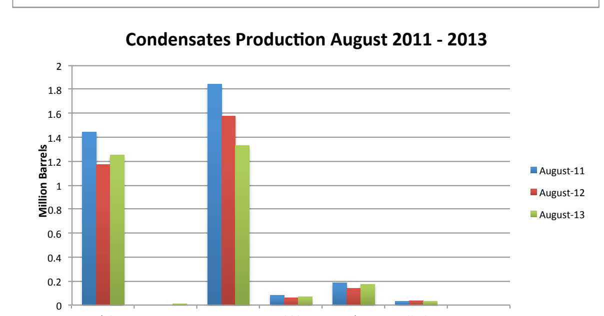
RIG COUNT

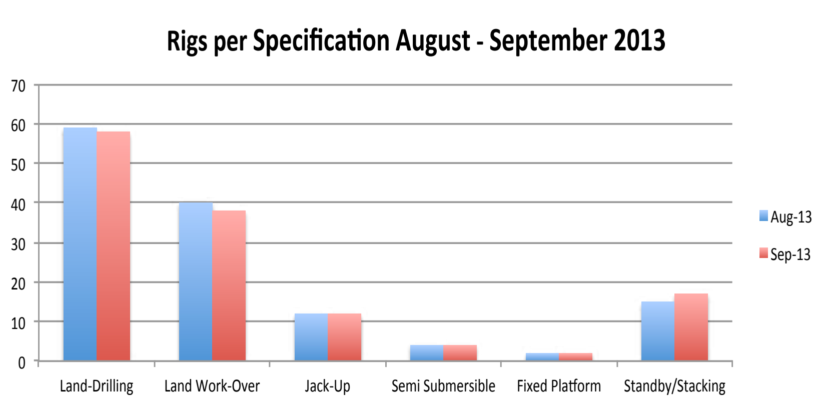
Area		Total	Percentage of Total Rigs
Gulf of Suez		10	9 %
Offshore	10		
Land			
Mediterranean Sea		8	7 %
Offshore	8		
Land			
Western Desert		78	68 %
Offshore			
Land	78		
Sinai		9	8 %
Offshore			
Land	9		
Eastern Desert		5	4 %
Offshore			
Land	5		
Delta		4	4 %
Offshore			
Land	4		
Total		114	100%

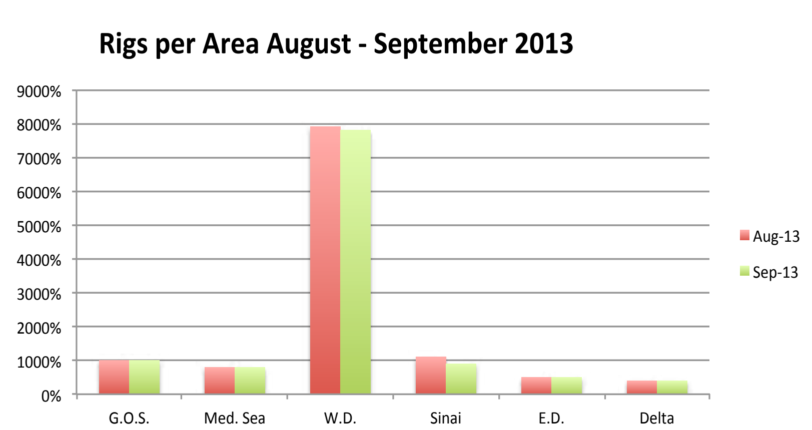


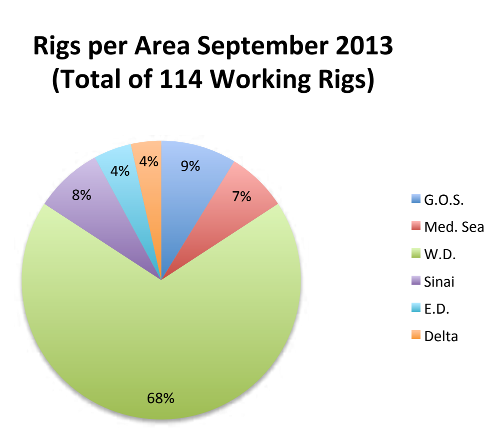


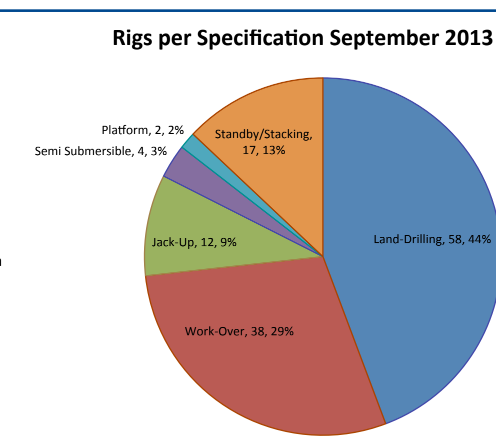


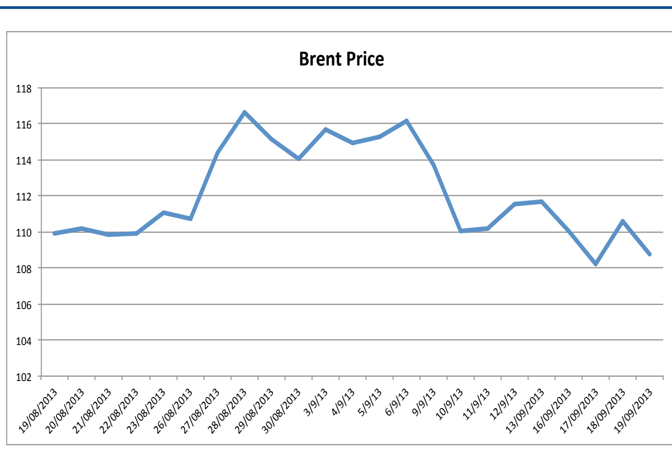


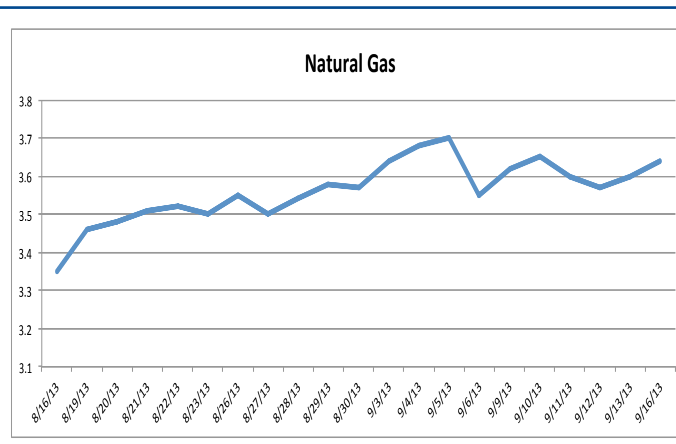


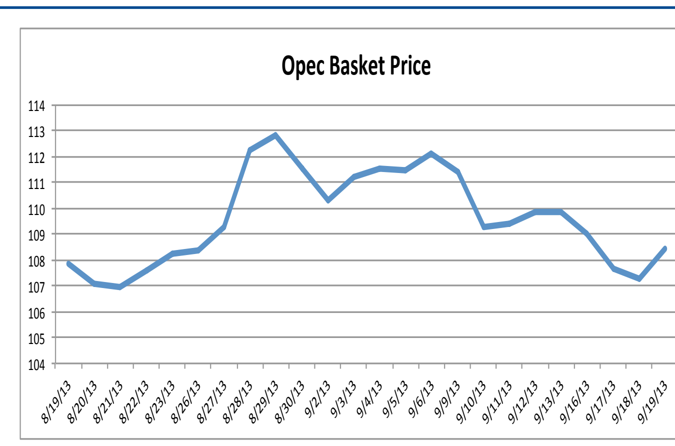


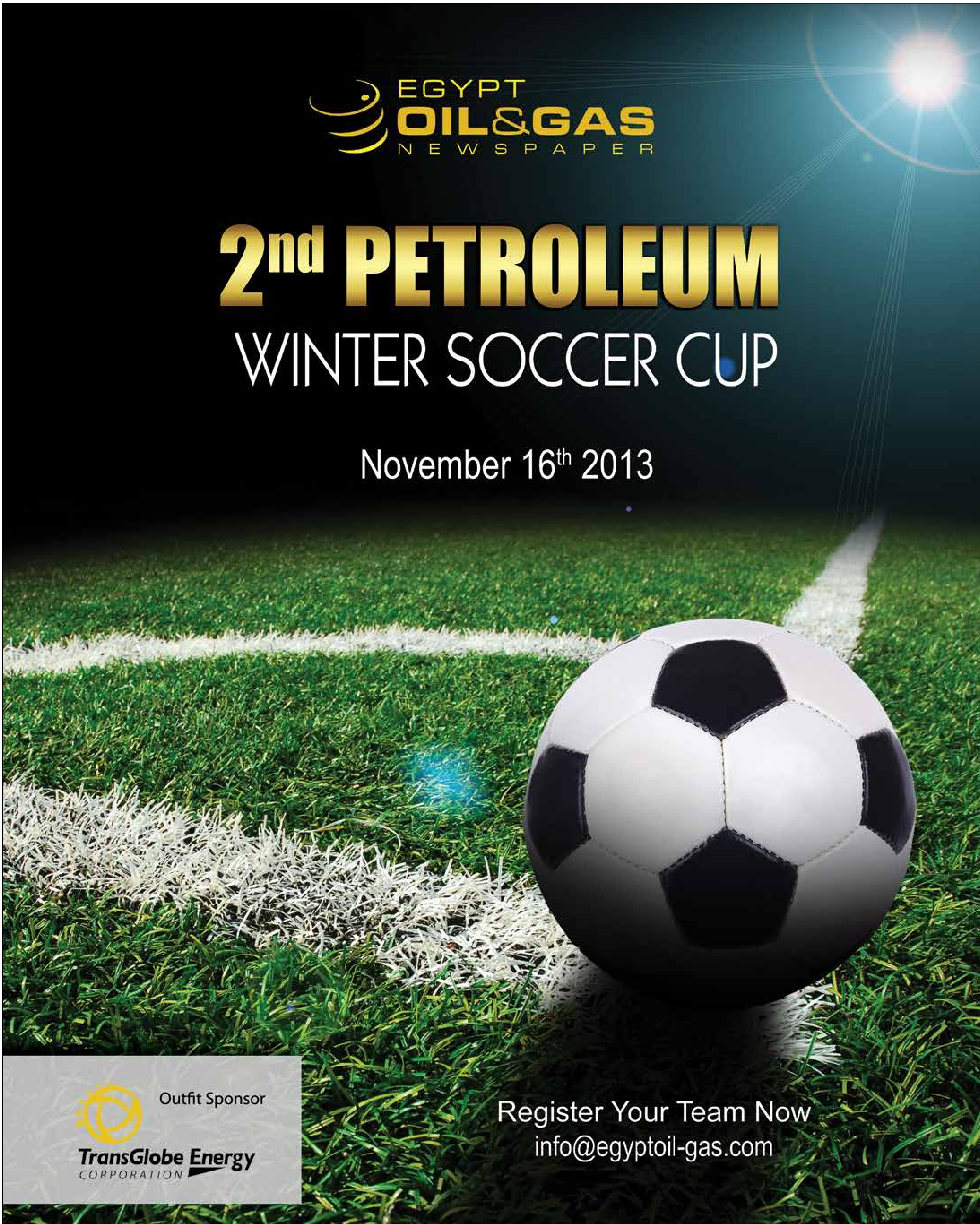








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