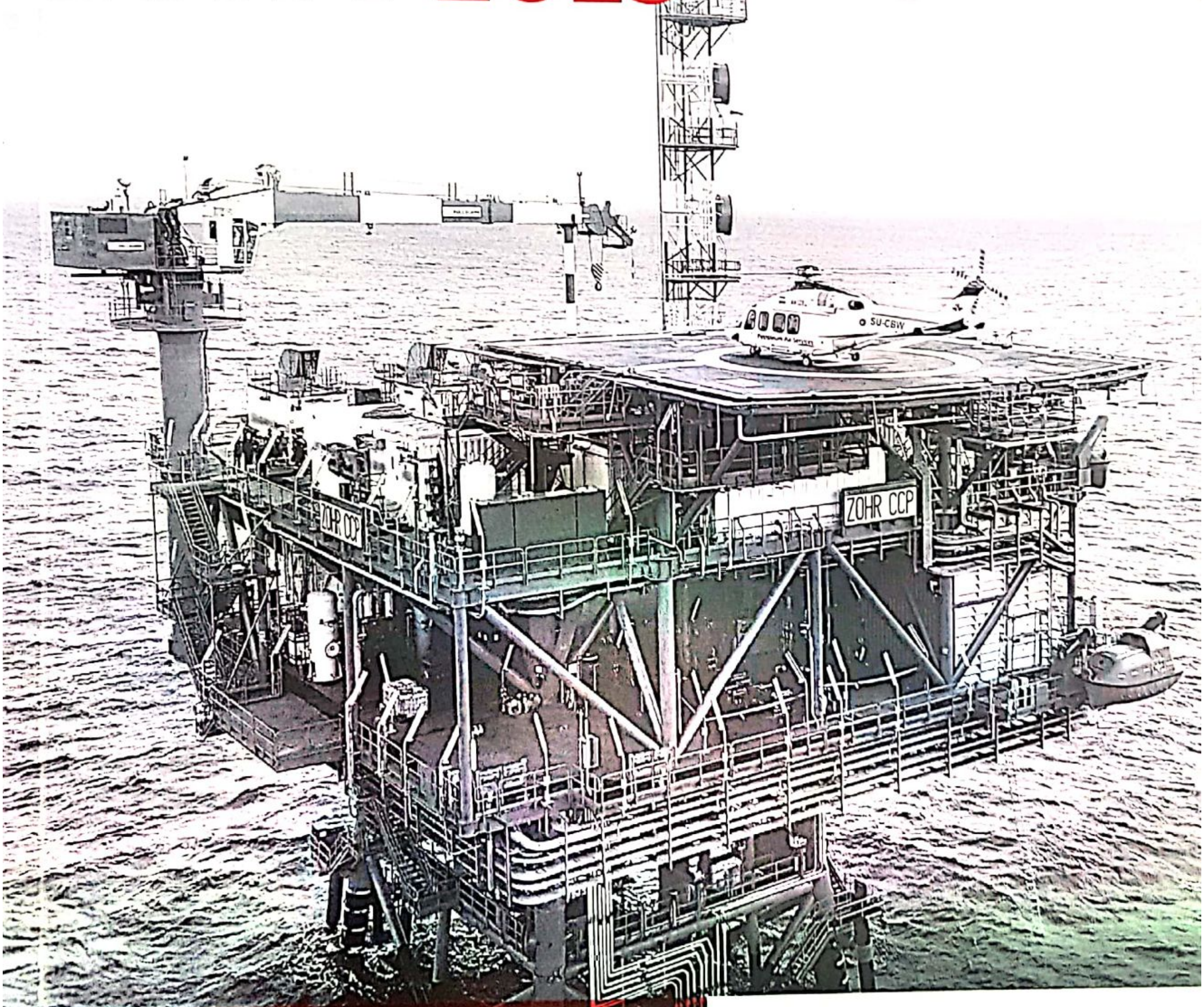
EGYPT 2019



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A new vision

TOGY talks to Mohammed Saad Eldin, chairman of Saad Eldin Group, about how Egypt's government has made concessions more attractive and the benefits of removing energy subsidies. Saad Eldin Group is a diversified industrial group whose gas activities include processing and transportation.

Mohammed SAAD ELDIN
Chairman
SAAD ELDIN GROUP

How have recent reforms increased the attractiveness of Egypt's oil and gas industry?
Before President [Abdel Fattah] El Sisi came to power, our economy and our policy and strategy for the oil and gas industry was not good. There was a lack of vision and a lack of creative ideas to enhance the country's business environment.

Under these conditions, any investor that looked at Egypt decided not to invest. No international companies were looking at Egypt seriously, which resulted in no new oil or gasfield discoveries for a long time. Our production was not enough to cater to our own consumption needs; we had to import from abroad.

When El Sisi became president and Sherif Ismail minister of petroleum, I advised them to take successful examples from outside the country. For instance, Israel and Noble Energy agreed on a win-win deal and succeeded in discovering gas offshore. I insisted they should let the investors come to Egypt under a win-win situation, where they can make profits and contribute at the same time to the growth of our economy.

> "Starting transformative industries in Egypt will be more cost efficient."

They took care of this, and we have a good example in Zohr with Eni. This concession was previously with Shell, but they left it because the agreement stated that 20% of the production had to cover the cost, while the remaining 80% of the production was divided between 85% that went to the government and 15% to the operator. This is not fair.

Under the new agreement with Eni, 40% of the production goes to cover costs, while the remaining 60% is divided – 65% to Egypt and 35% to Eni. Under this new agreement people came and invested, we discovered gas and it was a success.

Incentives must be given for international investors to come and invest here. We now have BP, Eni, ExxonMobil and Shell working in Egypt. We have an abundance of gas, as well as good marketing of our resources. In the Mediterranean we now have 200 bcf [5.66 bcm], which is seven times the size of Zohr. We also have hydrocarbons in the Red Sea, the Western Desert and many other places.

How do you view the recent actions to remove energy subsidies?
For over 10 years I have been advocating for the removal of subsidies. There was no way to keep them in place. They are against all economic rules. The subsidies were established to help poor people, but they actually didn't help them. Because the subsidies were given for the material itself, the biggest consumers – the rich people – benefitted the most. To really help the poorer people, we had to remove subsidies and pay the cost for them. This is the right way.

The government has already spent more than EGP 120 billion [USD 7.15 billion] on subsidies, of which only 20% went to the poor people, while the remaining 80% went to the rich people. Also, after removing subsidies, people will care more about how much energy they use; there will be more awareness. This programme is now in place and subsidies will be entirely removed by 2020.

What is your vision for the future of Egypt's hydrocarbons industry?
When your raw material is available and cheap, and you also have the consumers, the sector will boom. They are now starting two factories that will use natural gas as feedstock, one in Sokhna and the other in Port Said. We will have more investors in this field because we have gas, electricity, ports and more people than any nearby country.

Comparing the costs to transport natural gas to Europe, bearing in mind that liquefaction is about USD 4, transportation USD 2 and regasification let's say USD 1, natural gas is at least USD 7 cheaper per unit in Egypt. Starting transformative industries in Egypt will be more cost efficient.

Amount Egyptian government has spent on subsidies:
More than USD 7.15 billion

On top of this and compared to Europe, you save at least 50% on Customs fees when exporting to Africa, due to the many international agreements we have in Africa. If you sum up all the savings possible in Egypt, you have a margin that is at least 50% larger here than in Europe. Infrastructure has also developed a lot and will support these activities.

What are your latest engagements in the downstream sector?
Our group started working in the downstream sector in 1985 with LPG, filling cylinders and selling them. Our capacity today is more than 150,000 cylinders per day, which is around 15-20% of Egypt's total consumption. We have seven factories for filling LPG cylinders and the transportation means between our factory, the port and our facilities. We also have a factory for cylinder manufacturing; we manufacture new ones or recondition used ones.

We could grow even further, but now with the subsidies still in place the government has a quota for all the factories. We have more capacity but we can't increase it yet. With the removal of subsidies, it will be a free market and we will be able to import or to use our full capacity.

Egypt is going to be a hub of natural gas, but natural gas can only be transported through liquefaction or pipes. We found a new way, which is CNG. We got the know-how for transporting CNG with no pipes. We have already imported all the machines, while the rest of the small equipment will come within a month. In a month's time, we will be ready to start a CNG pilot project, which will be a first for Egypt. This way, the whole country can be covered by natural gas supply.

We decided to invest in this as we are thinking about the future. While the government will remove energy subsidies, natural gas will be 50% cheaper and the market will switch to natural gas. We established a policy to convert most of the cars to run on CNG, but this was a problem as we didn't have enough stations – we could only install stations next to the pipelines. With our new CNG approach we can install stations anywhere.

Also, in many places it is not economically viable to build a pipeline. We are bringing natural gas to the entire country, while the government won't need to incur big expenditures. The end consumer will pay 50% less and the government will stop subsidising energy, won't pay in foreign currency and will be able to use the local production of natural gas. It is a win-win situation for all parties. The project will start in August [2019], and within two years we will be able to cover the whole country.

What is Egypt's potential as a regional gas hub?

The potential is huge. In five years, Egypt will be number one for gas in the Middle East, and we will be the hub for gas. Why? First of all, to be a hub you need to have big production, along with big facilities to market this production. We have two LNG plants. We also have the stations to receive the gas, and we have pipelines, such as the SUMED pipeline, which runs from east to north, and pipelines that run from the south to Israel, Jordan and Syria. We can get gas from Israel and pump it into our liquefaction stations. We have all the facilities.

Other countries, such as Cyprus, Israel and Greece, have production but they don't have any facilities to export it to consumers. There are two ways to do this: LNG and pipelines. For LNG, it will cost at least USD 10 billion for one station and will take at least three to four years. For the pipeline, it will be a similar cost, and it will take five to seven years to finish.

The smartest thing these countries can do is work with a neighbour that has the facilities and can support them. Egypt has the facilities to market or process our neighbours' gas. It will be a win-win and we will be the leader.

Why are we establishing a hub for the Mediterranean? We are in the middle of the region and connected to Europe. Europe's market is dependent on Russian gas, but they don't want to have only one source and are searching for a competitor; this is the first priority for them. And, at the same time, Egypt is the only country prepared to receive gas from elsewhere in the region. It is a win-win situation for all of us.

What opportunities come along with the new gas law for players like Saad Eldin Group?

Under the new gas law we can import LPG or we can export or import LNG. I am thinking about a strategic storage area – we already have our own port – to export LNG and import LPG.

Egypt's LPG consumption now is around 3.6 million tonnes per year, but our production only covers 50% of this. We import 1.6 million-2 million tonnes per year. If we had a small quota of this, let's say 25%, we would arrange a storage area and import LPG for our factories. We will do this after the removal of subsidies. Within two years of the removal of subsidies, we will increase our market share in LPG from 15% to 30% or 40%. After the implementation of the new gas law and the removal of energy subsidies, the private sector will take care of everything.

We can also engage in the fertiliser business on a larger scale once we have more gas. Now, we have changed our mindset and projects are dependent on gas. Before, we needed to import gas and this was costly, but now businesspeople are looking for new projects as there is availability of gas. Today, any gas-related investment in Egypt is a good investment for the future.

What are your international aspirations?

We are starting with Africa. I started a company in Rwanda and we will build new factories in Rwanda and Uganda for filling LPG cylinders. We will be using the Mombasa port in Kenya to feed our factories in Uganda and Rwanda. In Rwanda, only 3% of citizens use gas. I spoke to the Rwandan energy ministry and convinced them of the benefits of using gas. We can change the mindset of people to encourage them to use gas.

I promised them that I would grow this 3% to 30% or more. By the end of this year we will have our cylinders there, and the people will come to fill them in our factory. ■

SECTOR VOICE

Omar HAMZA

CEO

ENJAZ PROJECT MANAGEMENT

Enjaz Project Management recently closed a grant agreement with the US Trade and Development Agency (USTDA) that supports a feasibility study for the Enjaz Integrated Petrochemical Complex Project. What are the project's main features?

This was an idea [illegible] in March 201[illegible]. We started doing a pre-feasibility study on making [illegible] natural gas, whether in Egypt or in the region. We looked at [illegible] gas [illegible] to use this gas as feedstock, and at the same time [illegible] commodities and [illegible]

Those products [illegible] us a market lead[illegible] will also help [illegible] petrochemical portfolio's market[illegible] whether private or [illegible] products. This is [illegible] Egypt and how to grow and [illegible]

We have seen [illegible] transform Egypt [illegible] gas hub, developing and implementing the new gas law to free [illegible] the decision to [illegible] government and the investors [illegible]

The pre-feasibility [illegible] we approached the [illegible] signing ceremony in October 201[illegible] the study has already started and we [illegible] and Enjaz is one of the biggest projects to be funded by USTDA.

Enjaz Project Management acts as a one-stop shop in the energy and heavy industries markets.