Economy

Egypt's energy future is 'bright,' says head of parliamentary committee

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Cairo

Egypt's energy sector is on the rise, said Talaat el-Sewedi, the head of the Energy and Environment Committee in the Egyptian parliament.

"Look at what is happening on the ground," Sewedi said. "Major finds are made and these will alter the future, not only of the energy sector but of this country as a whole," he said in an interview.

Egypt's Energy Committee expressed confidence in the energy sector and, given huge natural gas discoveries made off the coast of Egypt and in the Nile Delta, that is certainly understandable.

Egypt suspended natural gas exports following the 2011 revolution, with the country facing a major energy crisis resulting in regular blackouts and brownouts. Egypt produces 5.2 billion cubic feet of natural gas every day but this covers just 70% of its energy needs, resulting in $220 million in gas imports every month.

Egypt also produces less than 60% of its needed oil, necessitating $800 million in oil imports each month. Cairo also pays $600 million to buy petroleum from local wells operated by foreign companies with concessions in Egypt.

This pressures the national budget, which is heavily reliant on international aid and borrowing, and is something authorities have pledged to address.

A radical change seems to be in the offing. In August 2015, Italian energy company Eni discovered a massive natural gas field off Egypt's Mediterranean coast. The Zohr field is estimated to hold 30 trillion cubic feet of gas — equal to all of Egypt's other gas reserves.

"The field is a real game changer because it will make Egypt self-sufficient and send Egyptian gas to international markets again," Sewedi said. "This will have far-reaching consequences for economic and financial conditions in Egypt."

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Production from the field is expected to come online by the end of the year. Production is estimated to be in full swing by the end of 2018 when the Zohr field is expected to produce 2.7 billion cubic feet of gas every day, almost half of Egypt's overall daily production.

"Energy is a principal factor for the investment climate in any country, which means that Egypt's image as an investment magnet will totally and positively change when it has enough energy [resources] for all economic activities in it," said Ramadan Abul Ela, a professor of petroleum engineering at Alexandria University. "Self-sufficiency, investments and gas exports will create totally different economic realities and these realities will start to show in a few years."

Zohr is only one of many production areas expected to be online in the next few months. Over the past two years, Egypt signed nearly 75 oil exploration deals with international companies, with many expecting new oil and gas field discoveries to be announced soon.

Sewedi said this means Egypt could be a regional energy hub.

"Our view is that oil produced in the region can come here, be refined or liquefied and then resupplied to other countries where there is demand," Sewedi said. "This will bring in revenues, make the best use of Egypt's location as a middle point between petroleum producers and consumers and utilise our sprawling petroleum facilities."

Egypt's Energy and Environment Committee in parliament has had dozens of meetings while working on a plan to reform the country's energy sector. The committee is developing a bill to regulate gas exploration in the country to attract investors.

Prior to 2010, Egypt spent billions of dollars to build massive gas liquefaction plants in the northern coastal city of Damietta and in the northern Nile Delta. It is now constructing huge oil refineries to receive crude oil produced in the Gulf, refine it and export it on behalf of producers.

"The fact is our country has whatever it takes to become a regional energy hub," said Medhat Youssef, the former deputy head of the Petroleum Authority, the executive agency of the Petroleum Ministry. "It has the location, the infrastructure and the expertise."

This infrastructure includes a pipeline that can carry oil from production centres in the Gulf to markets in Europe and Asia. Called Sumed, the pipeline, which opened in 1977, provides an alternative to the Suez Canal for moving oil from the Gulf to the Mediterranean.

This infrastructure, along with recent developments on the ground and planned reforms, means that many are optimistic that Egypt's energy sector is on the cusp of positive change.

"True, our country suffers economically now but it is rising and will manage to change its realities in a few short years," Sewedi said. "We have a great future ahead, which means that we can develop our country and make it great again."

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Optimistic outlook. Talaat el-Sewedi, head of the Energy and Environment Committee in the Egyptian parliament. (Provided by Hassan Abdel Zaher)

Riyadh faces challenges in preparing for Saudi Aramco IPO

Jareer Elass

The government of Saudi Arabia has taken substantive steps to entice potential investors to participate in the much-anticipated initial public offering (IPO) of state crown jewel Saudi Aramco. At the same time, Riyadh is being told that it must be far more transparent in opening its books and governance policies in advance of the limited sale of Saudi Aramco shares and warned that the kingdom's larger economic reform plan was likely to fail to meet its ambitious objectives.

Questions remain about the exact valuation of Saudi Aramco, which will have a profound effect on how much the kingdom realises from its proposed sale of up to 5% of the company in 2018. The Saudi government has put Saudi Aramco's valuation at $2 trillion, which theoretically would generate as much as $100 billion for the kingdom.

However, estimates by industry analysts vary widely: Energy consultancy Wood Mackenzie suggested a valuation of $400 billion and other estimates range from $800 billion-$1.5 trillion.

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Saudi Aramco has pledged to provide investors with 2015 and 2016 financial statements as well as preliminary 2017 data ahead of the IPO. The Saudi government is working to separate key aspects of Saudi Aramco's finances from the government by assuming some liabilities that the state energy giant has been carrying on its books for years.

One such measure involves moving long-standing debts Saudi Aramco holds from foreign governments such as Jordan and Iraq onto the government's books, while the Saudi Finance Ministry will assume payments owed to Saudi Aramco from other state enterprises, including Saudia Airlines and Saudi Electricity.

The government plans to establish a mechanism by which Saudi Aramco would receive compensation through tax deductions for the financial burden it bears in subsidising domestic fuels. In March, Saudi King Salman bin Abdulaziz Al Saud issued a decree cutting the corporate tax rate for the state oil firm from 85% to 50%, a significant step in boosting Saudi Aramco's market value and generating higher dividends to future shareholders.

The stakes for a successful limited sale of Saudi Aramco are particularly high for newly minted Saudi Crown Prince Mohammed bin Salman bin Abdulaziz, who has made the IPO the linchpin of the kingdom's economic restructuring and his Saudi Vision 2030 blueprint. Proceeds from the sale are to be fed into the kingdom's sovereign wealth fund — the Public Investment Fund (PIF) — and invested in non-oil sectors at home and abroad, including public infrastructure, manufacturing and technology ventures.

London-based consultancy Capital Economics (CE) reported in June that expectations for Vision 2030 to fundamentally transform Saudi Arabia's economy should be tempered, based on implementation challenges and because the government will not be addressing important factors, including non-oil exports, a radical reform in Saudi education and narrowing the wage gap between Saudi nationals and migrant workers. "The result is that Vision 2030 is likely to fall short of its lofty intentions," CE stated.

The consultancy also noted that while Crown Prince Mohammed's recent elevation to next in line for the Saudi throne would help advance some economic reforms, the Saudi government will face resistance from other members of the royal family with vested interests, as well as from the religious establishment, the civil service community and influential merchant families.

On another front, a New York-based non-profit organisation, the National Resource Governance Institute (NRGI), recommended that Saudi Aramco disclose key financial and operational data that have traditionally been kept under wraps. NRGI said: "One weakness is its [Saudi Aramco's] opacity — if authorities in Saudi Arabia wish to sell shares of the company in equity markets, greater transparency may be necessary."

In a June 28 NRGI study of 74 extractive sector state-owned enterprises examined for the quality of their disclosures and corporate governance, Saudi Aramco was one of 14 firms deemed to have "failing" governance.

"Valuation of the share offering would be better informed if Saudi Aramco increased the transparency of its finances and operations," NRGI said. "The company does not publish annual reports with comprehensive financial statements or information about rules and practices governing its oil sales; the Saudi royal family is deeply intertwined with management of the company."

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Crown Prince Mohammed said on state television in May that decisions about Saudi oil and gas production and investments would stay firmly in the hands of the government after the IPO. Saudi Aramco is having a rare independent audit conducted of its oil reserves — a crucial component in the analysis of the company's valuation — though the firm declared in March that its recoverable crude oil and condensate reserves totalled 260.8 billion barrels at the end of 2016, largely unchanged from 2015's 261.1 billion barrels.

Jareer Elass reports on energy issues for The Arab Weekly. He is based in Washington.

High stakes. Logo of Saudi Aramco is seen at the 20th Middle East Oil & Gas Show and Conference (MOES 2017) in Manama, last March. (Reuters)