



Mohamed Refaat KHAFAGI

Established in the 1960s, and with offices directly opposite EGPC, GUPCO is a veritable institution of the Egyptian oil and gas scene. Currently producing 130,000 barrels of oil and 640 million cubic feet of gas per day, GUPCO plans to increase its production profile through a 500 million US dollar rehabilitation programme.

The Oil & Gas Year: *Currently heading one of Egypt's foremost oil and gas joint ventures, you have a career spanning over 30 years in the industry. Please could you outline your background and how you came to be chairman of GUPCO?*

Mohamed Refaat Khafagi: After graduating from Ain Shams University with a BSc in Geology, I joined GUPCO in 1977. I then moved to the Abu Dhabi Company for Onshore Oil Operations in 1981, returning to GUPCO in 1985 as exploration manager and assistant chairman to different joint venture companies. I have also worked at the Egyptian Ministry of Petroleum as a consultant for exploration and production, and was appointed chairman for Qantara Oil Company, as well as EGPC vice chairman for agreements and exploration in 2001. Finally I was appointed as GUPCO chairman in 2004.

TOGY: *Egypt is a mature hydrocarbons province with industry experts predicting, at best, a leveling off of total oil production in the medium term. As the country's second-largest producer, how concerned is GUPCO about the threat of long-term production declines?*

MRK: Reserves and production are dynamic. Every new discovery can add to your profile and Egypt still has many unexplored areas both onshore and offshore. In the past we were content to drill in Lower Egypt, leaving Upper Egypt and other frontier areas unexplored. With new technology this attitude has now changed and we are actively exploring and producing from much deeper wells in more remote areas.

Prevailing opinion dictates that in Egypt we have already discovered the elephants and, therefore, we are now working on increasingly smaller discoveries. That is not true. The recent glut of discoveries in the Western Desert, an area that was thought to have no new potential, is enough to demonstrate this.

Onwards and upwards

TOGY talks to

Mohamed Refaat KHAFAGI,
Chairman and Managing Director
GULF OF SUEZ OIL COMPANY (GUPCO)
and Board Member **EGPC**

TOGY: *As one of the country's oldest producers, how is GUPCO acting to slow the decline and add to its production portfolio?*

MRK: GUPCO, started in the 1960s, has a number of ageing platforms, pipelines and infrastructure. In terms of slowing decline we have invested 600 million US dollars to rehabilitate several important facilities over the next five years.

As for new discoveries, we have several promising areas and developments. Our 2003 discovery at Saqqara, BP's largest find in Egypt for 10 years, has led us to install a very sophisticated digital unmanned platform system. With production starting in May 2008 the field, one of our premiere projects, is now producing at 30,000 barrels of oil per day.

"There is a lot of untapped potential for Egypt both on and offshore."

Another example is the work undertaken at our Nubia reservoir site. We have plans to drill new wells in shallower reserves and boost our production significantly.

We also have new discoveries and rehabilitation work in areas such as GS 327. An extension to the field, a modified platform and several new wells have also seen rising production rates in the last three years. Finally, a new discovery in North Shedwan will further add to our production profile. Recently we received the development lease contract and have entered the engineering phase. This development will be



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tied to production at the Petrobel facilities on the Eastern side of the Gulf of Suez to minimise the cost of the project.

TOGY: *There were 54 new discoveries in Egypt during 2007 and 2008. Given the current state of the global economy and its knock-on impact on the oil and gas industry, do you expect this rate to continue?*

MRK: Why not? These discoveries were the result of new agreements concluded only recently. Exploration continues and we expect more exploratory commitment wells to be drilled in the years to come.

TOGY: *Egypt has been touted as potentially the world's largest natural gas exporter. Do you agree with that prediction?*

MRK: Yes, I believe there is still potential in the Mediterranean yet to be discovered. We already have liquid natural gas (LNG) facilities at Damietta and Idku, with both these projects completed in record time. There is always room for expansion at these sites and others, but of course a lot depends on developments and new discoveries.

TOGY: *In the gas market there is tension between domestic demand and the desire of exploration companies to export the gas. How do you see that tension playing out over the coming years?*

MRK: Gas subsidies play a large role in domestic use, thankfully the subsidies are being studied and this will help us to rationalise our local consumption. Subsidy reduction was not an easy thing to do, but it is very important because the subsidy policy is a very influential factor. Secondly, to encourage foreign companies to explore and develop gas we need to ensure that their assets can generate revenue. So we have to ensure gas buy-back contracts that closely reflect market prices.

Finally, we need long-term projects such as LNG plants and pipelines. Therefore you need long-term vision and policy in order to convince foreign companies to acquire concessions and invest money in exploration, which is especially expensive in deep water. The companies need to know they will have a green light to export whenever they need to. Bearing this in mind, there needs to be a balance between the two parties and it is important to establish a win-win situation where both can operate.

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TOGY: *GUPCO is the second-largest producer of oil in Egypt and has been here for over 40 years. How do you envisage the company moving forward in the short to medium term?*

MRK: At the moment there is a plan to move the gas and oil divisions into two separate entities. If the planned proposals go ahead, there will soon be a GUPCO oil division and a separate GUPCO gas division for exploration in the Mediterranean and Gulf of Suez.

TOGY: *Over the previous five years, high oil prices and a booming world economy drove on prices of rigs, materials and labour through the roof. Given the current downturn, do you see an opportunity for GUPCO to capitalise on these new conditions?*

MRK: Before the financial crisis, the oil price was high and marginal fields promised excellent



GUPCO is positioning itself to become one of Egypt's leading producers and exporters of gas

profits. As a consequence demand for everything from, rigs, vessels, materials and manpower went up. Also Egypt lost a lot of skilled workers to overseas job opportunities.

The financial crisis will now impact on all areas of business. We have to look at what we pay for rigs and other equipment. We have to review all our contracts and see whether they are still suitable in current market realities. It will be a challenge to update the contracts and on that note we are currently in negotiations with several of our contractors to reassess previous agreements, as well as retender our contracts.

In a recession there is additional material and services available, and there will definitely be more rigs on the market. Other opportunities open up though. For instance if there were projects you were hesitating to launch, now might be the best time to press ahead. As far as I can predict, better times are around the corner and this could be a golden opportunity to buy low and sell high.

At GUPCO we see this current crisis as an opportunity to recuperate some of the good brains and experienced hands that we lost before. Overall there are several ways we can maneuver and turn this situation to our advantage while we prepare for the next stage in our development.

TOGY: *In many countries surveyed by TOGY, Gulf countries in particular, there was an expression of concern over recruiting local skilled workers. Is that the same here in Egypt?*

MRK: It is quite different in Egypt. We have local manpower that is well trained, well educated and has experience working alongside industry experts. We have plenty of different nationalities coming and the great thing at GUPCO is that the combination of Egyptian nationals and expatriates creates better results.

I have recruited many engineers and geologists here to be trained up for our workforce and they will form part of our strategy to replace some of the workers who left recently.

TOGY: *You are confident in GUPCO's future. Do you feel the same for Egypt as a hydrocarbons power in coming years?*

MRK: The government is planning to create a new regulator to put in place the strategy and measures that the energy sector needs. I would like to see also a rationalisation of our internal energy consumption to get the maximum benefit out of what we are producing.

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For GUPCO, there is excellent potential for big gas developments in the Mediterranean. We are also very pleased with our new Western Desert development operations where we have managed to increase production by 60 percent. I am optimistic and sure that, given the correct use of the latest technology, the Gulf of Suez has great untapped potential.

Finally there are many underexplored areas in both the oil and the gas segments, so as a geologist I know that there is a lot of untapped potential for Egypt both on and offshore.