



Mahmoud LATIF

Established eight years ago to stimulate investment in the natural gas arena, EGAS has so far launched five successful bid rounds, resulting in 27 concession agreements worth 2.7 billion US dollars. The plan is designed to exploit existing reserves and discover new ones.

The Oil & Gas Year: Why was the Egyptian Natural Gas Holding Company (EGAS) created, and what are its main objectives for the immediate future?

Mahmoud Latif: After recognising the increasing importance of natural gas to the Egyptian government, EGAS was established in August 2001 as an entity focusing on natural gas activities, adopting an effective action plan to organise and handle the activities of the natural gas sector. The intention is to add value to the Egyptian economy through attracting and managing foreign investment in both upstream and downstream disciplines of the gas industry in Egypt, especially exploration and production (E&P), infrastructure and the distribution of natural gas, as well as the conception of LNG plants.

In brief, EGAS intends to initiate an active plan which encompasses a number of initiatives. Firstly, EGAS plans to attract international oil companies to invest in E&P through the announcement of regular international bid rounds for the available open spaces in the onshore and offshore areas of the Nile Delta and the Mediterranean Sea. Five successful bid rounds have been launched, which resulted in 27 concession agreements, worth a total of 2.7 billion US dollars, with 29 international petroleum companies. The plan also intends to further exploit existing, but underdeveloped gas resources, while also investing in the discovery of new reserves. We also plan to further develop Egypt's liquefied natural gas (LNG) capabilities through infrastructure investments. Furthermore, we will maximise efficiency in gas consumption in order to save as much of our resources as possible. We will also seek to link the European LNG pipeline system with the Arab Gas Pipeline, thereby striking a balance between gas export volumes and the requirements of the local market.

TOGY: In March 2009 Mahmoud Latif, the chairman of EGAS, said that a surge in local demand

In the pipeline

TOGY talks to

**Mahmoud LATIF, Chairman
EGYPTIAN NATURAL GAS
HOLDING COMPANY (EGAS)**

called for a hike in Egypt's gas production to 10 billion cubic feet by 2011. Is this expectation reasonable, given the state of the current worldwide offshore exploration market? What factors does he hope will contribute to achieving such a hike?

ML: The forecasted hike in Egypt's gas production back in March 2009 was intended to meet the expansion of forecasted industrial demand, which had to be reviewed, evaluated and prioritised periodically. The result is a much more realistic gas supply/demand profile, where non-energy-intensive, yet labour-intensive projects are at the top of the priority list. Gas production will come predominantly from the Mediterranean, the Western Desert and the Nile

“The intention is to add value to the Egyptian economy through attracting and managing foreign investment...”

Delta. Majors such as Shell, ENI, BP, Petronas, Apache and RWE have all demonstrated their interest in exploration in these areas, which reflects their confidence in these areas' potential. Majors are not alone: new players from future bid rounds are also expected to contribute to achieving the rise in gas production.

TOGY: With the Ministry of Petroleum in the process of finalising new gas price contracts, what will the final proposal agreements look like and how will they influence gas exploration in Egypt?

ML: Generally, any amendment to gas pricing comes about as a reaction to major economic changes due to capital cost increases in the ex-



EGAS's overtures to international companies are ensuring that natural gas development becomes more integral to Egypt's energy security

ploration and development phases, in relation to developed reserves and related production to make the investor able to continue profitable investment. All amended gas prices are related to gas produced from offshore areas, where high-pressure and high-temperature constraints usually prevail. Negotiations with contractors to amend gas prices have balanced the interests of contractors and EGAS, agreeing a price that makes the investment economically viable, and at the same time maintaining a gas price lower than that of other competitive energy sources, such as fuel oil and diesel. No standard gas price is applied to all amendments. Different gas price formulae with different ceilings and floors were developed by parties in each concession.

TOGY: *With Shell, BP and BG engaged in ambitious offshore exploration, what are your medium-term hopes and expectations for the Mediterranean deep-sea programme?*

ML: The deep water in the Mediterranean Sea is by far the most promising area and we are expecting huge gas reserves to be discovered. Geological and geophysical studies carried out by the operators on their holding concessions have identified a total of 334 leads with approximately 70 trillion cubic feet yet to be exploited. These figures are to be updated quarterly, according to drilling data. The Egyptian petroleum sector has to play a progressive role in rewarding the successful risk takers in such challenging areas to compensate for their incurred costs.

TOGY: *The Egyptian government and the Petroleum Ministry have faced strong domestic criticism over previously signed gas export deals. How do you plan to develop the natural gas export industry, while also allaying considerable public concern about the issue?*

ML: The decision to export Egyptian gas was taken in 2000-01, when the local market was saturated, while reserves and production were high.

Underground gas had to be evacuated and commercialised. Exports provided the solution at that time. A campaign was launched to promote switching from liquid fuels to natural gas in various applications, including power generation, petrochemicals and manufacturing. This campaign proved to be rewarding in terms of the increased gas demand we face today. Our policy is to satisfy the local market and to allocate about 30 percent of any excess gas discovered to new export projects. Gas exports provide the upstreamers with a lucrative incentive for development, while generating revenues in hard currency for the government. The public is gradually becoming aware and appreciative of the infrastructure already in place that qualifies Egypt as a regional energy hub. This is based on the

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presence of the Arab Gas Pipeline, the liquefaction plants on the Mediterranean and the interconnecting national gas grid, not to mention the location of Egypt at the centre of the regional gas market. Different producers in the region could be connected to different gas markets via the Arab Gas Pipeline, or the expansion of the capacity of our LNG trains.

TOGY: *Can competing demands for gas from residential and industrial sectors be met while Egypt also pursues ambitious plans for further LNG trains*



Burullus Gas is a successful joint venture between British Gas, Edison International and EGAS

at Damietta and an eventual link up to the Nabucco gas pipeline?

ML: Satisfying the local market demand is our first priority. As I mentioned before, we are confident in our exploration and production development activities and results. We have put together an intensive work programme through issuing bid rounds and giving more incentives to the international E&P companies to explore new gas prospects for the purpose of aligning our current commitments and our future plans to develop new export projects.

TOGY: *What led to the June 2008 ban on new gas export contracts? Given the current volatility of the international gas market, will the ban be extended beyond the 2010 deadline?*

ML: Both the tremendous increase in the domestic demand for gas and our contractual export commitments have to be satisfied. As the Brent price increased and reached more than 140 US dollars per barrel in July 2008, the gas markets also flourished, thus generating unprecedented revenues from gas exports. Tempting as it may have been to accelerate our plan for export projects growth by pursuing rapid expansions, the local market takes priority. But the international gas market is volatile. It has been hit by the global financial crisis of 2008 and 2009, some markets harder than others, and by the abundance of LNG produced by new projects, such as Sakhalin II and Qatar's mega projects. Will the markets be stabilised by 2010? Will demand have picked up by then? Where will the level of gas prices be? What will the cost of building new plants be by 2010? The answer to those questions will determine the timeframe for the ban.

TOGY: *What is the medium- to long-term future for LNG and natural gas production in Egypt? When can we expect a definite decision to be made on a third LNG train at Idku?*

It is our belief that the future for natural gas and LNG in Egypt is very promising. We have already justified Egypt's claim to be a regional energy hub. The two trains at Idku are supplied by dedicated gas reserves. The Idku train may be supplied by aggregated gas, swapped gas, transit gas or dedicated gas reserves, provided of course that they are of quantities sufficient to fill the train's capacity.

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In recent years there has been an apparent decoupling of the price of gas and that of oil. How has this developing situation impacted EGAS and what challenges might it pose for your future operations?

The price of gas sold as feedstock has been linked to final products' prices. Pipeline gas has not been de-coupled from oil prices. The same applies to the produced gas we buy from exploration and production contractors, mainly because they too are closely coupled with oil prices in most of their exploration and production activities. Nevertheless, since Egypt has become an LNG supplier, Egyptian LNG has ended up in other markets, where competition is favourable. Our plan for the future is to have multiple indices and to increase the flexibility of our contracts in terms of market destinations, thus mitigating the consequences of any decoupling of the prices of gas and oil in the international gas market.

