



MODERNIZATION AS A NEW STRATEGY

Speaking with Egypt Oil&Gas, His Excellency **ENG. TAREK EL MOLLA** introduces Egypt's Oil and Gas Sector Modernization Program.



Egypt Oil&Gas had a pleasure of talking to Egypt's Minister of Petroleum and Mineral Resources, Eng. Tarek El Molla, on the 1st of January, 2017, which in a symbolic way set a new milestone for the country's sector.

Egypt's Modernization Program for the oil and gas industry is a unique, overhaul transformation plan that the Oil Ministry designed to unlock all the potential the country has to boost development and enhance the economic picture. The plan to rationalize the energy sector bears within itself an ambition for Egypt to become regional oil and gas hub within the next five years.

Modernization as a Courageous Strategy

As the Minister firmly stated, "Modernization is not just a word. Beyond the word lies a huge strategy. The strategy has been developed by industry people with six major initiatives in order to achieve the desired vision."

The challenges that this program aims to resolve are currently being reviewed, yet what is clear is that the main objective of the program is "to see our oil and gas sector heading into a big success with big aspirations," said the Minister. What this means for Egypt is rather unprecedented as it fearlessly targets the overall framework in which the sector has been rooted.

"The major idea is to transform our oil and gas from the usual legacy, which is a service driven oil and gas sector, into a profitable value added oil and gas sector." Touching upon a legacy is a brave move, which represents "a change of mindset" that will lay down an important milestone to the industry in Egypt, which in itself would be a major achievement."

The Minister has thus presented a new approach to modernization that reaches beyond any previously unimaginable measures as he is determined to link the change to the industry culture to a clearer vision and through a consistent work build upon it with "a joint objective to create a profitable organization." The Minister enthusiastically added that "this will make a big difference to the oil and gas industry in Egypt."

Ambitious, yet Realistic Timeframe

The strategy is set for five years, but as the Oil Ministry watches the current state of affairs in the industry with a sense of urgency, there is strong push to complete all the segments of the strategy already in a three-year span. In the last weeks of 2016, the Minister has toured various organizations in the country to present and launch the program. He expressed his hope that the industry will see positive outcomes, given people's support. "I have seen enthusiasm from young generation and staff in the oil and gas sector, which has encouraged me to say that we will be able to achieve the three year plan."

The Minister acknowledged that "having the people in the oil and gas sector aligned and motivated to target one single strategy reaching towards a joint vision is not easy, but it is our objective that will certainly turn to a strong asset." However, the realization of the three-year plan will be restrained to frequent revisions of the detailed program as all the initiatives start rolling.

Towards Competitive Industry

"The most important part of the program is to address the inefficiencies" that the oil and gas sector has seen in the past years. In the first phase, the sector needs to identify its problems and find a set of solutions to improve them with a goal to speed up the process in order to excel, as the Minister further stated. This implies to turn Egypt's oil and gas sector into an attractive, competitive, and business oriented industry.



"Part of this is to review all the processes from the start of the bid rounds to the implementation of production from our wells, which means the entire supply chain together with all its processes in order to ensure that each and every single step we follow is revised and optimized to the extent that we do not see any inefficiencies left that would slow down our progress on the way."

New Organizational Framework

The modernization plans come with an unseen element of structure reform. The minister embarked upon this road bearing in mind the ultimate vision of building the oil and gas sector that can be "benchmarked against any other international oil and gas company." To achieve this, "we have to understand that double-headed role [of state bodies] is not sustainable." Therefore, the reorganization of the sector entities was identified as a key aspect of success.

The Minister explained an intended organization framework. "The Ministry of Petroleum would be the policy and strategy maker, while we will have the state corporations – EGPC, GANOPE, EGAS – as the oil and gas entities focused on doing profitable business in upstream, midstream, and downstream. The third body will be an independent regulator that will play the role of setting prices, fees, tariffs, subsidies, and preventing monopolies."

This shows the rationale behind the structure reform. "Segregating the roles and responsibilities is the main objective of reaching an ideal organizational structure." While the processes related to this segment of the transformation will come in parallel to the other five initiatives, "we will not see the final outcome of it except at the final stage."

Investments under Upgraded Terms

In this way, if all the above is achieved, "we will be able to attract more investors and partners into the sector."

This necessarily entails to revise the existent forms of agreements. The Minister clearly stated that "for the time being, the production-sharing agreements model has been proved successful."

As he further explained, "the production-sharing agreements is merely a title, but there are many details incorporated into this model and part of it are

the processes themselves, with which we have the flexibility to amend them in order to implement the best practices within or to improve any less ideal parts of these processes." In such a way, the ministry will be able to provide so to speak an upgraded version of the production-sharing agreements, "to have a better model in place," as the minister put it, and thus attract more investors into the country's promising energy sector.



“
**Modernization
is not just a
word. Beyond
the word lies a
huge strategy.**
”

As for the near future, it appears to be more beneficial when amendments to any terms come through a mutual discussion with industry players. "Part of our modernization program is to get a feedback from our partners and to ensure that we capture all remarks and ideas that can be used in order to improve our processes." The ministry will thus be able to develop more beneficial processes and build up a more suitable model of agreements in joint efforts with all its partners to lure new investments.

Yet, when speaking about an inflow of fresh capital, "we are not going to stand by the idea of being able to attract foreign investments as we did in the past two years based on several initiatives that have proven successful. We would like to achieve sustainability in investment attraction."

The Minister disclosed the plans in more details: "We would like to have our partners investing more and putting a bigger part of their portfolio to reside in Egypt. In doing this, we have to make sure that we are having proper criteria, agreements, pricing, processes, and cycles for the permits and approvals, whereby any upstreamer would be able to gain permits to do some seismic works or exploratory drilling or production wells in a reduced timeframe."

Upstream's Targets

The Modernization Program further aims to upgrade performance of the upstream sector in a specific way, less through new explorations. Instead, "the part of the upstream in the Modernization Program is talking about improving the current production levels

Competing for Regional Oil&Gas Hub

The Modernization Initiative set a clear path for Egypt to confidently compete for a new ambitious position in the global market as a Regional Oil&Gas Hub.

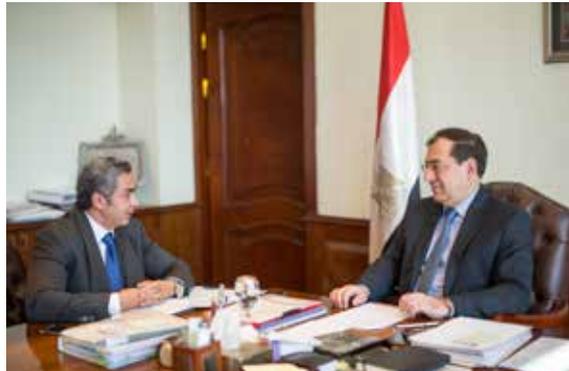
The Minister stated convincingly that while Egypt has a unique geographic location to play such an important role in the region, it in itself is not enough as the competition coming from several countries in the region is fierce.

Egypt is able to "qualify for a hub using our infrastructure, both the existing and the expanded facilities." "Part of our infrastructure is currently being developed," His Excellency added, including refineries' capacity. Hence, the energy hub aspirations relate not only to natural gas, but to petroleum products and LPG as well as to a trading hub that includes electricity. "With the new Siemens power plant under construction, Egypt will be in the position to have extra capacity of generated electricity."

This strongly suggests that the Oil Ministry is not developing its modernization program in isolation rather through intensive inter-ministerial debates. A Modernization "Committee includes different ministries and authorities that will work together in order to create and develop the industry and put Egypt into a position of a hub globally." The work of the Committee started in the last week of December and we will take the advantage of having our first EGYPS 2017 event to introduce the energy hub initiative as the first exposure globally."



in the country."



“The major idea is to transform our oil and gas from the usual legacy, which is a service driven oil and gas sector, into a profitable value added oil and gas sector.”

through existing reservoirs, concessions, whereby we need to improve and maximize output."

There is already a clear tactic in place that describes the steps the ministry will take. It includes "introducing new technologies, EOR, work overs, best practices globally." With these means, there is a huge room for improvements, which will also depend on the scope of transformation in human capital development.

Building World Class Human Capital

The Minister has affirmed that "capacity building is something inevitable and it is a key for success of the program," therefore People Agenda is one of the six major initiatives.

Therefore, during his townhall discussions, the Minister focused on motivating people who became believers in this ambitious proposition. "We have been able to let people have their aspirations translated into plans and motivate them by including them be part of this plan." There is a strong belief that people will identify new enablers for the program to succeed, execute them and find new ways of doing business that can prove profitable for the country's sector.

"I am very optimistic and confident that our staff will unite in order to successfully embark upon an important milestone for our oil and gas industry in Egypt and make this a success story," added the Minister in a highly positive tone.

Held under the patronage of His Excellency President Abdel Fattah El Sisi, EGYPS 2017 Petroleum Show thus aspires to reach the level of major international oil and gas conferences and exhibitions. "We are trying to position ourselves on the global scene and to show that we are back into the economic oil and gas map."

At the event, Egypt will "exhibit its success stories and the opportunities for investors to do business

With the Modernization Program, the ministry intends to showcase its transformation plans and build upon it in terms of forging partnerships with the neighboring countries as well as other international stakeholders.

