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President Abdel Fattah Al-Sisi (2014- present) ratifies anti-terrorism legislation. The Sinai Province militant group (formerly Ansar Beit al-Maqdis) appears to have killed a Croatian national abducted near Cairo, suggesting a new strategy of targeting foreigners. Italy-based Eni updates its agreement with the government following a significant onshore discovery in the Nile Delta. The Egyptian Natural Gas Holding Co (EGAS) agrees to pay a higher price for gas to Eni. The electricity ministry increases electricity prices for mid to high household usage by an average of 19%. A presidential decree decreases the top rate of income tax and freezes capital gains tax.

Sisi ratifies anti-terrorism legislation

President **Abdel Fattah Al-Sisi** (2014- present) has ratified anti-terrorism legislation that appeared in the government gazette on 16 August.¹ Analysts caution that Egyptian officials may use the anti-terror legislation to crack down on opposition Islamist and liberal groups. The government accelerated the passage of the law after a bomb killed state prosecutor **Hisham Barakat** in **Cairo** on 29 June.

The ratified anti-terrorism law:

- establishes specific courts for terrorism offences and fast-tracks terrorism cases;
- offers increased liability from prosecution for security forces during operations;
- provides for the death penalty for those convicted of leading terrorist groups, 10-year sentences for membership of a terrorist group, and 25-year sentences for financing terrorist operations;
- empowers the president to impose curfews or evacuate areas to curb terrorist activities;
- provides for fines for individuals or groups engaged in reporting that contradicts government statements on terror attacks or security operations;
- provides for courts to suspend from employment those convicted of reporting statements terror attacks or security operations that contradict the government.²

Although there is no specific mention of the media, the provision to suspend convicted individuals from employment is likely a reference to journalists. The government has previously accused journalists of misreporting events in the **Sinai Peninsula**. However, the government limits access to the region, making it difficult to challenge its account of security incidents.³

*"We can see the political will to move to the next level to safeguard the government's position – a domestic crackdown on proscribed **Muslim Brotherhood** linked groups. Sisi is ready, willing and able to do all that is necessary to safeguard the Egyptian state."⁴*

¹ Al Ahram, 16 Aug 2015.

² Al Ahram, 16 Aug 2015.

³ Source, North Africa analyst, London

⁴ Source, North Africa analyst, London

There is concern that the government will implement the new legislation in a heavy-handed manner. Western human rights groups have said the powers are similar to the three-decade long state of emergency under ousted former president **Hosni Mubarak** (1981-2011).⁵

“The comparison to Mubarak is both a history lesson and for opposition leaders a cri du coeur. What it is not, is an exaggeration. Sisi fails, or refuses, to differentiate between political Islamists and militant Islamists. The implementation of the legislation is unlikely to be any more nuanced than Sisi’s approach so far.”⁶

Sisi’s approach so far has involved heavy sentences for senior Muslim Brotherhood officials. On 23 August, the **Port Said** criminal court sentenced Muslim Brotherhood supreme guide **Mohamed Badie** and top leaders **Safwat Hegazi** and **Mohamed El-Beltagi** to life imprisonment over the storming of a police station in Port Said in August 2013.⁷ This is the sixth life sentence that courts have handed down to Badie. The Cairo high court sentenced him to death in April.⁸ Another court gave former Brotherhood politician **Mohsen Rady** and seven other figures life imprisonment sentences on 24 August for involvement in clashes with police in **Banha, Qalyubia** governorate in July 2013.⁹

The newly ratified anti-terrorism law coincides with a recent increase in Islamist violence. The **Islamic State**-affiliated **Sinai Province** militant group (formerly **Ansar Beit al-Maqdis**) appears to have killed a **Croatian** national abducted near Cairo in July.¹⁰ The kidnapping and apparent execution show the Sinai Province’s capability to operate beyond the Sinai Peninsula and the group’s targeting of foreign personnel. The Sinai Province on 5 August released a video of hostage **Tomislav Salopek** who worked for **France**-based geoscience company **Compagnie Générale de Géophysique**.¹¹ Gunmen reportedly stopped Salopek’s car on a highway west of Cairo.¹² Salopek said in the video that the Sinai Province would execute him in 48 hours unless the Egyptian government released all Muslim women held in prison. This deadline passed and on 12 August a social media **Twitter** posting claimed that the group had killed Salopek.¹³ It is unclear if the Sinai Province specifically targeted Salopek for his employment in the oil and gas sector. The Sinai Province’s unrealistic demands suggest it has adopted the Islamic State’s ‘kidnap for execution’ rather than ‘kidnap for ransom’ tactics. Also in Cairo, a large car bomb detonated outside a national security building in the **Shubra El-Kheima** district of Qalyubia on 20 August. The blast wounded 29 people but there were no fatalities.¹⁴

Revised contracts and new appointments show investor confidence in oil sector

International oil companies are increasingly demonstrating their commitment to Egypt. **Italy**-based oil company **Eni** has updated the agreement it signed with the government at the **Egyptian Economic Development Conference** in **Sharm El Sheik** in March. The revision follows a significant onshore discovery in the Nile Delta in July.¹⁵ The updated agreement emphasises the centrality of Egypt to Eni’s business at a time when the company is focusing on near field and present infrastructure as part of a cost reducing divestment strategy.¹⁶ The new agreement will result in Eni increasing its investment in exploration and production. Petroleum minister **Sherif Ismail** and Eni CEO **Claudio**

⁵ AP, 16 Aug 2015.

⁶ Source, journalist, Cairo

⁷ Al-Ahram, 23 Aug 2015

⁸ Al-Jazeera, 11 Apr 2015

⁹ MENA, 24 Aug 2015

¹⁰ Al-Araby al-Youm, 8 Aug 2015.

¹¹ Al-Araby al-Youm, 8 Aug 2015.

¹² Al-Araby al-Youm, 8 Aug 2015.

¹³ Al-Jazeera, 12 Aug 2015.

¹⁴ MENA, 20 Aug 2015

¹⁵ Energy Monitor Worldwide, 25 Jul 2015.

¹⁶ Bloomberg, 23 Jul 2015.

Descalzi signed the new agreement in **Rome** (Italy) on 23 July. The updated agreement renegotiates the contract terms of the concession and commits both parties to jointly evaluating the development concessions of the **Abu Madi West** licence in the Nile Delta.¹⁷ Eni holds a 75% interest through subsidiary **Ieoc Production. United Kingdom (UK)**-based **BP** holds the remaining 25%. Preliminary estimates of the discovery suggest a potential of 15 billion cubic metres of gas and associated condensates. This will meet the processing capacity of the nearby **Abu Madi** gas treatment facility. In June, Egypt signed a \$2 billion exploration agreement with Eni activating a memorandum of understanding agreed at the March investment conference.¹⁸ The exploration agreement is expected to result in the development of 200 million barrels of oil, and 1.3 trillion cubic feet of gas.¹⁹

As part of the investment conference package, the **Egyptian Natural Gas Holding Co (EGAS)** has agreed to pay a higher price to Eni for gas produced from newly developed fields in the eastern **Mediterranean**, the **Nile Delta** and the **Gulf of Suez**.²⁰ Under the new price formula, EGAS will pay \$4 per thousand British units (mBtu) and \$5.88/mBtu for gas from newly developed fields.²¹ This compares to the previous price ceiling of \$2.65/mBtu, which did not provide sufficient incentive for international oil companies to invest. Petroleum minister Sherif said Eni will pay signature bonuses of \$500m over five years which will contribute to reducing government debts to international oil companies.

BG Group subsidiary **BG Egypt** on 27 July announced the appointment of technocrat **Khaled Kacem** as president.²² UK-headquartered BG Group is the leading international investor in the development of Egypt's natural gas industry and therefore plays a vital role in the quest to curb domestic shortages. Kacem was formerly managing director of **Rashid Petroleum Co**, the operating joint venture of BG Egypt, **Malaysia's** state-owned **Petronas** and **United States (US)**-based **Edison**.²³ Kacem succeeds **Arshad Sufi** who remains BG Egypt chairman.

BG Egypt holds two production concessions. The government awarded BG Egypt its **West Delta Deep Marine Concession** in 1995 with fields coming on-stream in 2003. BG Egypt is the operator of the concession, holding a 50% working interest and Petronas the remaining 50%. The government also awarded BG Egypt its **Rosetta Concession** in 1995 with production beginning in 2001. BG Egypt is the operator of the Rosetta concession, holding an 80% working interest and Edison the remaining 20%.

Relative political stability and the gradual reform of fuel subsidies are increasing the attractiveness of the Egyptian oil sector.²⁴ The oil sector has a number of strengths notably the significant resource base in the Nile Delta, Mediterranean Sea, and **Western Desert**.²⁵ Egypt also enjoys sole control over a significant oil and gas transit channel in the **Suez Canal**.²⁶ This is crucial for oil companies in the region.

*"Elsewhere in **North Africa**, you have to deal with multiple governments or face regional security risks. Either because oil reserves are near or cross borders, or because of export infrastructure."*²⁷

¹⁷ Energy Monitor Worldwide, 25 Jul 2015.

¹⁸ Energy Monitor Worldwide, 25 Jul 2015.

¹⁹ Energy Monitor Worldwide, 25 Jul 2015.

²⁰ Al Ahram, 17 Jul 2015.

²¹ Reuters, 12 Jun 2015.

²² Egypt Independent, 27 Jul 2015.

²³ Egypt Independent, 27 Jul 2015.

²⁴ Source, oil executive, North Africa

²⁵ Source, oil executive, North Africa

²⁶ Source, oil executive, North Africa

²⁷ Source, oil sector analyst, London

However, political instability since the ousting of Mubarak and a failure to clear debts accrued with oil companies had deterred investment. The political turmoil that followed the ousting of Mubarak deterred investment and cut tax revenues undermining the government's ability to service its commercial obligations.²⁸ **Egyptian General Petroleum Corp (EGPC)** chairman **Tariq al-Mulla** said on 26 July that Egyptian debt to international oil companies stands at \$2.9 billion.²⁹ The EGPC expects to make its next repayment instalment before the end of the year.³⁰ Debts to international oil companies peaked at \$6.3 billion in 2012. Nevertheless, debt obligations remain a risk to continued investment in the sector.

"A failure to pay back money owed to oil and gas companies could still see pledged investment in the upstream fall through."³¹

Government increases electricity prices...

The electricity ministry on 30 July increased electricity prices for mid to high household usage by an average of 19%.³² Electricity reform, both in terms of reducing subsidies and encouraging energy conservation, is crucial to strengthening government finances. However, the exclusion of the lowest three bands covering low-end household consumption from the price increase highlights the political sensitivities around the issue.

The new tariff structure is the first annual adjustment under a new five-year programme that started in 2014. Electricity costs for mid-level household usage of 201-350kWh per month increased over 27%, with the next three bands increasing 19%, 18% and 13.5% respectively.³³ The government has already increased prices for industrial users, for both peak and off-peak usage. The new tariffs follow the gazetting of the law in June that liberalised the electricity sector, establishing both a fluctuating price of electricity, and a regulated market which will still have a central tariff set (see *ARC Briefing Egypt July 2015*). The **Egyptian Electric Utility and Consumer Protection Regulatory Agency (EgyptEra)** will amend the tariff on the basis of changing economic circumstances, which can include the price of electricity on the new market.³⁴

... and lowers income tax and freezes capital gains tax

Sisi issued a decree on 23 August decreasing the top rate of income tax and freezing capital gains tax (CGT).³⁵ The changes are part of the government's attempts to increase productivity, which has remained low since 2011. The top rate of tax will go down from 25% to 22.5%, but the income required to enter the bracket also decreased from EGP (Egyptian pounds) 250,000 (\$31,000) to EGP 200,000 (\$25,000).³⁶ The government will also freeze the 10% CGT, enacting a promise that the president made in May to reverse part of its original economic reform agenda.³⁷ The government said the freeze would uphold the competitiveness of Egypt's financial markets and investments.

Markets welcomed the news, with the **Egyptian Exchange** increasing 5% for the first time since July 2013.³⁸ Prime minister **Ibrahim Mehleb** imposed 10% tax on dividends and capital gains for both domestic and international investors in July 2014. The initial announcement triggered an investor sell-off. Stock market authorities will continue to impose taxes on dividends. The administration

²⁸ Source, oil executive, North Africa

²⁹ Al-Masry Al-Youm, 26 Jul 2015.

³⁰ Al-Masry Al-Youm, 26 Jul 2015.

³¹ Source, oil executive, North Africa

³² Egyptian Independent, 30 Jul 2015.

³³ Egyptian Independent, 30 Jul 2015.

³⁴ EgyptERA presentation, 2014

³⁵ Office of the presidency, 23 Aug 2015

³⁶ Office of the presidency, 23 Aug 2015

³⁷ Reuters, 23 Aug 2015

³⁸ Aswat Masriya, 18 May 2015.

introduced a new tax regime in July 2014, but has had to roll back some of the changes after investors challenged it in court in April.³⁹

Implications

Heavy-handed implementation of the anti-terrorism legislation is likely to fuel suspicions that the government has no intentions of accommodating political Islam. This will increase perceptions that the only option available is continued violence. The campaign of terror attacks will continue, with probable targets including government and judicial officials, security forces and infrastructure. The kidnapping of a westerner signals the specific targeting of expatriates and tourists. Foreigners are most vulnerable while in transit, including to or from remote oil and gas sites.

The government will work to improve investor perceptions of its oil and gas sector, notably by clearing outstanding debts and continued subsidy reform. An attack on oil and gas infrastructure or personnel would, however, quickly reverse this increased investor confidence. BG Egypt's appointment of the technocratic Kacem suggests that **Netherlands**-headquartered **Shell** plans to retain much of BG Egypt's portfolio if or when its \$70 billion bid for BG Group⁴⁰ goes through.

The new electricity tariffs indicate the government's commitment to electricity sector reform. The government's investment in generating capacity is paying off. Power cuts are increasingly less frequent. However, levels of investment will need to increase if the government is to meet increasing electricity demands.

The government is trying to narrow its budget deficit without scaring off investors. The government will continue to prioritise increasing investment as the recovering economy and phasing out of subsidies reduce the fiscal deficit.

³⁹ Reuters, 23 Aug 2015

⁴⁰ Reuters, 8 May 2015

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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