

## AFRICA RISK CONSULTING

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#### Egypt Summary 24 September 2015

**President Abdel Fattah Al-Sisi (2014-present) swears in new government following prime minister Ibrahim Mehleb's resignation. Mehleb's successor is former petroleum minister Sherif Ismail. The new government follows the arrest of the then agriculture minister Selah Eddin Helal on corruption charges. The Higher Elections Committee (HEC) announces that parliamentary elections will begin on 17 October and completes registration of candidates and party lists. Italy-based oil and gas major ENI announces the find of the 'supergiant' offshore Zohr oil field.**

#### Prime minister Sherif Ismail heads new government

President **Abdel Fattah Al-Sisi** (2014-present) on 19 September swore in a caretaker government.<sup>1</sup> Key ministers have retained their portfolios (see below) in a government designed to project stability after corruption allegations forced the dismissal of the last government.

*"Lots of the cabinet will come back ... but Sisi will make some key changes to make sure the ministers can handle parliament."*<sup>2</sup>

Sisi appointed former prime minister **Ibrahim Mehleb** as presidential assistant for national and strategic projects, suggesting that Mehleb still has a political future. Mehleb's successor as prime minister is former petroleum minister **Sherif Ismail**, who has built a reputation in the oil sector as a competent and credible technocrat.<sup>3</sup> Since his appointment in 2014, Ismail has maintained positive relationships with international oil companies,

*"Ismail re-established the government's credibility by ensuring Egypt meets its debt obligations. Politically, his standing with Sisi improved with the increased levels of investment."*<sup>4</sup>

Ismail does not belong to a political party and maintains a relatively low profile.<sup>5</sup> However, a series of large oil discoveries (see below) has increased his popular and political profile. Ismail is the former chairman of state-owned gas holding company **Egyptian Natural Gas Holding Co (EGAS)** and the **Ganoube El-Wadi Petroleum Holding Company (GANOPE)**.<sup>6</sup> Ismail spent the majority of his career at the state-owned **Engineering for the Petroleum and Process Industries**. He also served as deputy oil minister under former ousted president **Hosni Mubarak** (1981-2011) from 2001 to 2005.<sup>7</sup> Ismail's successor as petroleum minister is **Tarek al-Mullah**, former chairman of the **Egyptian General Petroleum Corp**.

Significant office holders including interior minister **Magdi Abdel-Ghaffar**, defence minister **Sedki Sobhi**, and foreign minister **Sameh Shoukry** also retained their portfolios. The government has 33 ministers compared to 36 previously, following the amalgamation of a number of ministries related to education and healthcare. Local media has speculated that Sisi could not find sufficient individuals

<sup>1</sup> Al Ahram, 19 Sept 2015.

<sup>2</sup> Source, investigative journalist, Cairo

<sup>3</sup> Source, oil sector executive, North Africa

<sup>4</sup> Source, oil sector executive, North Africa

<sup>5</sup> Source, oil sector executive, North Africa

<sup>6</sup> Al Ahram, 12 Sept 2015.

<sup>7</sup> Egypt Daily News, 14 Sept 2015.

happy to serve for only a limited period of time (see below). Sisi also on 19 September named **Nabil Sadeq**, the deputy chief of the court of cassation, as prosecutor general.<sup>8</sup>

The trigger for the new government was the resignation of Mehleb on 12 September.<sup>9</sup> Tension had increased between Sisi and Mehleb for several months over delays to key infrastructure projects and the implementation of contentious subsidy reforms (see *ARC Briefing Egypt July 2015*). Sisi has increasingly linked Mehleb to subsidy reform in an attempt to position him as the “fall guy”<sup>10</sup> for the unpopular restructuring of the subsidy system. Mehleb’s resignation was at the request of Sisi who continues to directly wield executive power.

*“Sisi has enacted laws at a rate we have not seen for 60 years. By the time parliament sits he will have completely restructured much of the regulatory systems...a parliament could be a rude awakening to democracy but, so far, he has shown little inclination to bow to popular pressure on anything.”<sup>11</sup>*

Mehleb’s resignation is additionally linked to the politically contentious subject of land corruption. The resignation came the same week as agriculture minister **Selah Eddin Helal** resigned and was then arrested on corruption charges. The arrest is related to Helal’s alleged acceptance of bribes to sell state land to wealthy businessman **Ayman al-Gamil**.<sup>12</sup> The arrest was the first since the start of a four-year national strategy for combatting corruption in December 2014, which raises doubts about its efficacy.<sup>13</sup> Sources in Egypt report that Mehleb was implicated in the allegations against Gamil.

*“Mehleb was involved in the same corrupt deals as Helal but couldn’t be publicly punished, so the whole government resigned...or rather Sisi instructed them to resign.”<sup>14</sup>*

Corrupt property deals are especially contentious in Egypt as they are reminiscent of the Mubarak era. The courts found former prime minister **Ahmed Nazif** (2004-2011) guilty of extorting \$8.2m in illegal bonuses and property deals in 2011.

### Caretaker government to continue economic policies of predecessor

The new government is unlikely to mark a change of direction in economic policy or engagement with investors. Ismail has said he will continue the economic policies of the previous government including decreasing the budget deficit, increasing foreign investment, securing energy supplies and delivering large-scale infrastructure projects.<sup>15</sup> Finance minister **Hany Kadry Dimian**, electricity minister **Mohamed Shaker**, planning minister **Ashraf El-Araby**, investment minister **Ashraf Salman** and trade minister **Tareq Qabil** retained their posts. Dimian is a key figure. He was assistant to former finance minister **Youssef Boutros-Ghali** who was responsible for the start of economic liberalisation under Mubarak. **Central Bank of Egypt** governor **Hisham Ramez** also remains in office.

It is unlikely that the new government will remain in office long. This raises questions about whether it sees itself as having the mandate to make significant economic or investment decisions. The 2014 constitution gives parliament approval over government appointments including the prime minister and cabinet, and Sisi is likely to nominate a new government following the conclusion of the parliamentary elections in November (see below). There is concern that the short-term nature of the government may encourage political limbo. Under the constitution, if parliament rejects the proposed cabinet and its planned programme, members of parliament (MPs) of the majority coalition will nominate a prime minister. Analysts are uncertain whether this will encourage Egypt to break with its tradition of appointing technocratic ministers and encourage the president to nominate party political

<sup>8</sup> Al Ahram, 19 Sept 2015.

<sup>9</sup> Al Ahram, 12 Sept 2015.

<sup>10</sup> Source, business executive, Cairo

<sup>11</sup> Source, lawyer, Cairo

<sup>12</sup> Al Ahram, 8 Sept 2015.

<sup>13</sup> Foreign Affairs, 26 Jun 2015.

<sup>14</sup> Source, investigative journalist, Cairo

<sup>15</sup> MENA, 20 Sept 2015.

figures. Parliament is expected to convene for the first time in January 2016. Sisi appointed **Magdy Al-Agaty** as parliamentary affairs minister, responsible for ensuring smooth relationships between the government and the new parliament. Agaty is a new minister and was previously vice president of the state council, a powerful judicial body.

Sisi has pledged that the parliamentary elections will not distract his economic programme. In a public letter on 7 September, Sisi detailed major projects including the **Suez Canal Axis**, road investment, and the expansion of agricultural land by 1.5m reclaimed *feddans* (600,000 hectares).<sup>16</sup> Along with the streamlining of investment laws to encourage greater foreign investment, mining sector law reform is aimed to ensure maximum royalties to government.<sup>17</sup> The government has settled 300 disputes with foreign investors in 2015, and additional disputes are in the process of settlement. Sisi also addressed the energy crisis, promising unspecified “*new power installments*”.<sup>18</sup> However, the letter steered clear of addressing the economic impact of the repeated security threat of Islamist militant groups.<sup>19</sup>

*“What the government is planning entails nothing less than the massive re-engineering of Egypt’s entire economic apparatus. An economy that has for too long underutilised its natural and human resources is being restructured and retrofitted so that it can reach its full potential.”<sup>20</sup>*

### Parliamentary elections to begin on 17 October

The **Higher Elections Committee (HEC)** announced on 1 September that elections for the lower **House of Representatives** will begin on 17 October.<sup>21</sup> The October date is for the first round of elections; the second round will take place in November and run-off elections in early December.<sup>22</sup> Sisi on 13 August issued a presidential decree retrospectively approving the HEC, the body responsible for preparing and overseeing elections.<sup>23</sup> Despite the presidential decree, the HEC had, in fact, started working in July.<sup>24</sup> The head of the HEC is **Cairo** appeals court judge **Ayman Abbas**.<sup>25</sup> The other members of the HEC are deputies from the court of cassation and the appeals court, and two deputies from the state council.<sup>26</sup>

Progress towards the elections is continuing. The HEC announced that it had accepted 5,420 individual candidates and nine party/coalition lists before the registration period closed on 12 September.<sup>27</sup> The HEC announced eight electoral coalitions: **For the Love of Egypt**, the **Call of Egypt**, the **Knights of Egypt**, the **Nour Party**, the **Egyptian Front**, the **Independence Current**, the **Republican Alliance**, and the **Reawakening of Egypt**. The Egyptian Front and the Independence Current are competing in the elections as an alliance. The **Supreme Electoral Commission (SEC)** will announce the final list of approved candidates on 28 September, with campaigning expected to begin on 4 October.

### ENI makes “supergiant” offshore discovery

**Italy-based oil and gas major ENI** announced the find of the ‘supergiant’ **Zohr** oil field, the largest in the **Mediterranean**, on 30 August.<sup>28</sup> The gas field could potentially solve Egypt’s long-running energy

<sup>16</sup> State Information Service, 16 Aug 2015.

<sup>17</sup> Egypt Economic Development Conference, 13-15 Mar 2015.

<sup>18</sup> The National, 21 Mar 2015.

<sup>19</sup> Al-Jazeera, 23 Jul 2015.

<sup>20</sup> Daily News Egypt, 7 Sept 2015.

<sup>21</sup> Al-Ahram, 1 Sept 2015.

<sup>22</sup> Al-Ahram, 1 Sept 2015.

<sup>23</sup> MENA, 16 Aug 2015.

<sup>24</sup> MENA, 16 Aug 2015.

<sup>25</sup> MENA, 16 Aug 2015.

<sup>26</sup> MENA, 16 Aug 2015.

<sup>27</sup> Al Ahram, 16 Sept 2015.

<sup>28</sup> AP, 30 Aug 2015.

shortages that sparked unrest across the summer and have severely constrained growth. ENI believes that the field has reserves of 30 trillion cubic feet of gas (tcf), adding half again to its current untapped reserves of 65 tcf.<sup>29</sup> A spokesperson for the power ministry said that Egypt had no plans to export the gas, which would be for domestic consumption only.<sup>30</sup> ENI estimates that it will bring the field on-line in 2020.<sup>31</sup>

### Implications

Ismail is a safe appointment going into a general election. After the election, Sisi will have to face legislative scrutiny to pass laws and needs a prime minister with broad support to carry on his legislation programme. The retention of key economic office holders and the limited mandate of the government ahead of the elections will ensure that it maintains the economic and business policies of its predecessor.

The elections have the potential to inject some democratic accountability into Egypt's increasingly autocratic government system. The new parliament will, however, slow government decision making while also not proving an efficient check on Sisi's increasing authoritarianism.

ENI's gas find will help reduce import costs and bring in revenue from taxation. The find also has a geopolitical aspect as it could reduce Egypt's reliance on gas imports from **Israel**, which are economically necessary but politically unpopular. More gas will also fuel the large-scale industry projects that Egypt has signed with international companies such as **United States (US)**-based **General Electric (GE)** and **Germany**-based **Siemens**. Regular power cuts across the summer have constrained the development of these projects.

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<sup>29</sup> AP, 30 Aug 2015.

<sup>30</sup> AP, 30 Aug 2015.

<sup>31</sup> AP, 30 Aug 2015.

### About Africa Risk Consulting:

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