

AFRICA RISK CONSULTING

Egypt Monthly Briefing August 2023

Egypt Summary 14 August 2023

*Egypt has been grappling with rolling blackouts since a heatwave in mid-July significantly increased demand on the electricity grid. The electricity crisis has raised questions about the country's aspirations to become a regional natural gas exporter. President Abdel Fattah El Sisi (2014-present) urges Russian President Vladimir Putin (2012-present) to reinstate the Black Sea Grain Pact while attending the 2nd Russia-Africa Summit. The deal, which had allowed Ukraine to export grain to wheat-dependent countries like Egypt despite the ongoing war, ended in mid-July. United States-based newspaper *The Wall Street Journal* reports on 11 August that Egypt is resisting pressure from the US administration to supply arms to Ukraine.*

Electricity cuts raise questions about Egypt's plan to be a regional gas exporter

Egypt has been grappling with rolling blackouts after a heatwave in mid-July significantly increased demand on the electricity grid as residents sought to fuel cooling devices, raising questions about Egypt's aspirations to become a regional natural gas exporter.

According to the government, the high temperatures of between 40 and 50 degrees for 13 consecutive days, pushed daily electricity consumption to almost 36 gigawatts (GW), which required approximately 145 million cubic meters of natural gas and mazut, a carbon-intensive fuel oil. This is a 12% increase from the 129 million cubic meters averaged over the past year. If the government had not introduced power cuts, demand for natural gas and mazut could have surged as high as 165 million cubic meters.¹

The government has said the blackouts will continue until at least the end of August and has put in place a series of measures to curb demand including the introduction of a four-day work week for government employees starting 6 August, urging the private sector to do the same.² The government will also reduce street lighting and keep the air conditioning at 25°C in government buildings. The daily power cuts are set to continue if temperatures remain above 35°C.³

Before the blackouts, rumours had been circulating that there has been reduced output at the **Zohr** gas field. Zohr, located in the **Mediterranean Sea**, was discovered in 2015 by Italy's state energy firm **Eni** and is estimated to hold 30 trillion cubic feet of gas. It is operated by **Petrobel**, a joint venture of Eni and state-owned **Egyptian General Petroleum Corp (EGPC)**.⁴ Egypt and Eni denied there were any problems at the site.⁵ However, data from the **Joint Organisations Data Initiative (JODI)** shows that Egypt's natural gas production fell to a three-year low in the first five months of 2023.⁶ Multiple sources from the energy sector told **Africa Risk Consulting Briefing (ARC Briefing)** that technical issues have slowed output at Zohr alongside a lack of

¹ Press release, 27 Jul 2023

² Press release, 27 Jul 2023

³ Press release, 27 Jul 2023

⁴ Reuters, 7 Aug 2023

⁵ Al Ahram, 25 Jul 2022

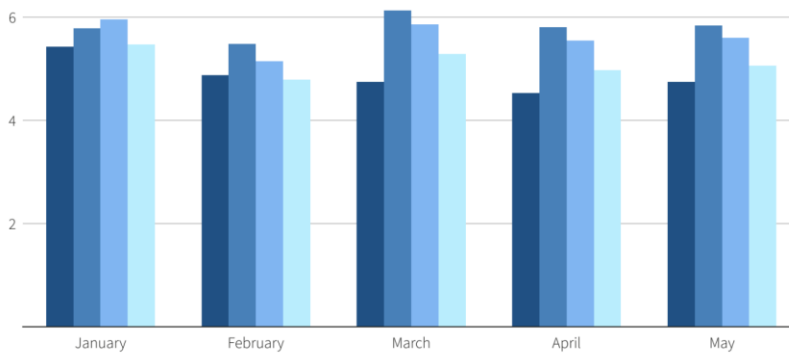
⁶ Joint Organisations Data Initiative figures, Jul 2023

planning on how the gas should be distributed between domestic consumption and exports. In 2022, the government announced a decision to ration electricity so it could export more gas. In July, it backtracked saying that exports would be halted until October to meet domestic demand. Egypt's currency crunch has also led the government to ration gas so it can be exported to earn hard currency.

Natural gas production

Egypt's natural gas production in billion cubic meters

● 2020 ● 2021 ● 2022 ● 2023



Source: Joint Organisations Data Initiative

There have also been diverging accounts as to the cause of the shortage within the government. Electricity minister **Mohamed Shaker** was quoted in the local press saying that power cuts are the result of the electricity ministry receiving less natural gas and fuel oil, but at a 27 July press conference, Prime Minister **Mostafa Madbouly** denied that natural gas shortages were causing the blackouts, insisting that extra mazut, would be imported.⁷ The use of mazut has increased from 20,000 tonnes per day to 34,000 tonnes.⁸ These differing accounts as to the source of the crisis reflect the fact that electricity shortages are a flashpoint political issue in Egypt. In 2013, rolling blackouts caused by gas shortages saw an exasperated populace take to the streets in protest. The electricity cuts of that year are widely seen as the 'last nail' in the political coffin of then-president **Mohamed Morsi** (2012-2014) who was subsequently ousted.

Amr Adib, the country's most influential talk show host with an audience of more than 70 million viewers, also criticised the cabinet for what he called mismanagement of the crisis:

*"The government should be straightforward and honest with the public about the causes of the problem rather than just 'blaming it on the weather'."*⁹

Coastal areas including the **Red Sea** and the Mediterranean coast where Egypt's ultra-wealthy live during the summer months, have been spared cuts as the government said that reducing electricity to these areas would affect tourism. This has prompted **United States**-based **Human Rights Watch (HRW)** to denounce the government's decision to limit the supply of electricity to some of the poorest areas of the country with **Upper Egypt** and the **Nile Delta** seeing 6-hour blackouts daily.¹⁰

Sisi in Moscow to discuss reviving crucial grain deal

⁷ Reuters, 7 Aug 2023

⁸ Reuters, 7 Aug 2023

⁹ Al Hekaya, 29 Jul 2023

¹⁰ Middle East Eye, 8 Aug 2023

President **Abdel Fattah El Sisi** (2014-present) urged **Russian** President **Vladimir Putin** (2012-present) to reinstate the **Black Sea Grain Pact** on 28 July during a session of the **2nd Russia-Africa Summit**.¹¹ The deal, which had allowed **Ukraine** to export grain to wheat-dependent countries like Egypt despite the ongoing war, ended in mid-July after Russia backed out after alleging that Ukraine and the West were not abiding by the terms of the deal. Reinstating the pact is key to Egypt, the largest importer of wheat globally. Sisi said at the summit:

*"I look forward to reaching a consensual solution with regard to the grain [pact] that would take into consideration the demands and interests of all parties and curb rising grain prices."*¹²

Since the pact fell apart, Russia has bombed Ukrainian ports, destroying thousands of tonnes of grain. During remarks at the Russia-Africa Summit, Putin argued that under the deal in the past year, 32.8 million tonnes of cargo was exported from Ukraine, *"of which more than 70%, went to high- and above-average income countries"*.¹³ Putin promised on 27 July that Russia would send free grain to **Eritrea, Burkina Faso, Central African Republic, Somalia, Mali and Zimbabwe**, but Egypt will not be among the recipients.¹⁴

With Egypt already struggling amidst an acute economic crisis and 105 million citizens to feed, most of whom are under the poverty line, securing access to wheat, which is used by the government to produce subsidized bread is a priority. Amidst a cost-of-living crisis, Egyptians are becoming increasingly vocal about their dissatisfaction with the government's performance. The potential that the wheat supply be reduced and costs rise would be a disaster that the government can simply not afford at this precarious time.

Already for business the legally mandated minimum wage has risen from 1,000 EGP (\$32,36) to 3,000 EGP (\$97,09). However, this cost only reflects the absolute minimum employers must pay - realistically private businesses have been forced to raise salaries across the board multiple times in the past year as employees struggle to keep up with huge inflationary pressure on basic staples like food.

Egypt refuses US pressure to arm Ukraine

US-based newspaper **The Wall Street Journal (WSJ)** reported on 11 August that Egypt is resisting pressure from the US administration to supply arms to Ukraine, against the backdrop of a push by US President **Joseph Biden** (2021-present) to assist the war-ravaged nation as it attempts to resist Russian forces. WSJ reports that US defence secretary **Lloyd Austin** asked Egypt to supply artillery shells, antitank missiles, air-defence systems and small arms to Ukraine when he travelled to Egypt in March to meet Sisi. While Egypt has not explicitly rejected the requests Egyptian officials said privately that Egypt has no plans to send the weapons.¹⁵

Yet, in April, a leaked US intelligence document indicated that Sisi has ordered the production of 40,000 rockets to be covertly shipped to Russia (*see ARC Briefing Egypt Apr 2023*). The subsequent reports showed that Sisi told officials to keep the shipment of weapons secret *"to avoid problems with the West."*¹⁶ This latest report indicates yet again the complexity of an at-times tense partnership between the US and Egypt. Egypt depends on the generosity of US aid as well as the ongoing extension of credit from institutions like the **International Monetary Fund (IMF)**. Several Democratic lawmakers urged Biden on 10 August to withhold some

¹¹ Reuters, 28 Jul 2023

¹² Press statement, 29 Jul 2023

¹³ Sputnik, 27 Jul 2023

¹⁴ Sputnik, 27 Jul 2023

¹⁵ The Wall Street Journal, 11 Aug 2023

¹⁶ The Washington Post, 11 Apr 2023

military aid to Egypt over human rights issues. Currently, under US regulations, \$300m of the \$1.3 billion in military aid to Egypt is subject to human rights certification each year. Last year, the Biden administration withheld \$130m of that total because of concerns regarding Egypt's rights record.¹⁷ Given these ongoing tensions, Sisi has sought to diversify Egypt's base of allies pursuing connections with US rivals such as **China** and Russia.

Russia has also in recent years been aggressively expanding its influence in the **Middle East** and more recently in Africa, bolstering the regime of **Syria's** President **Bashar al-Assad** (2000-present), aiding the government of the CAR with weapons and security personnel, and building ties with **Turkey**.¹⁸ Russia and Egypt also co-hosted the first Russia-Africa Summit and Economic Forum in 2019 in **Sochi** (Russia), inviting 40 heads of state to discuss greater collaboration on trade and security. In March, high-ranking Russian officials met with Sisi to discuss the state-owned **Rostom's** nuclear plant which is under construction on Egypt's Mediterranean coast.

More recently, it has been reported that Russia has offered to help assist Egypt in mediating its ongoing dispute with **Ethiopia** over the **Grand Renaissance Dam (GERD)**. Russia's ambassador to Egypt **Georgy Borisenko** said in a TV interview on 25 July that "*our Ethiopian partners should remember the legal concerns of our Egyptian friends*" asserting the need for a mutually binding agreement on the operation of the dam.¹⁹ Putin also held meetings with Ethiopian prime minister **Abiy Ahmed** (2018-present) before he met Sisi during the Russia-Africa Summit and said that several partnerships in energy would be forthcoming between the two nations.²⁰

For business, Egypt's actions represent both a desire from the government to seek partners who can offer mutual benefit rather than impose ideals, but it also is a greater reflection of the changing power structure of international relations as US influence is declining in the Middle East and nations like Russia and China are vying for influence, in the process re-shaping the nature of commerce and international diplomacy.

¹⁷ Reuters, 10 Aug 2023

¹⁸ The Economist, 26 Oct 2019

¹⁹ Sabak El Masr, 25 July 2023

²⁰ Press statement, 26 Jul 2023

Planner

Sep 2023 **Cairo (Egypt)** *Al Mal*. **Japanese** trade delegation arrives to discuss potential investment in renewable energy and green hydrogen industries;

2023 **Cairo (Egypt)** *Enterprise*. Government to sign agreements with a consultant for the **EuroAfrica** electricity interconnector.

Chronology

10 Aug 2023 **Cairo (Egypt)**. *CAPMAS*. Annual headline inflation rose to a new all-time high of 36.5% in July, driven by higher food prices;

3 Aug 2023 **Cairo (Egypt)** *Asharq Business*. **United Kingdom**-headquartered **Shell** announces it will begin drilling new gas exploration wells at its concession areas in the **Mediterranean** in September at a cost of more than \$80m. Shell acquired 100% of the **Northeast El Amriya** offshore gas block from **United States**-headquartered ExxonMobil in 2022 and in 2020, Shell and **Malaysia**-owned **Petronas** were granted the **North Sidi Gaber** and **Al Fanar** concessions;

1 Aug 2023 **Cairo (Egypt)** *World Gold Council*. Demand for gold bars and coins more than tripled year-on-year in quarter two of 2023 as Egyptians try to cope with the ongoing currency crisis. Egyptians bought 10.4 tonnes of gold during the three months, up from 3.3 tonnes in the same period in 2022;

30 July 2023 **Cairo (Egypt)** *Masrawy*. **United States**-based **Morgan Stanley** states it expects another Egyptian pound devaluation in September or October, coinciding with when it expects the **International Monetary Fund** to proceed with its first review of Egypt's \$3 billion programme. The bank also expects the **Central Bank of Egypt (CBE)** to hike interest rates by another 200 basis points to 20.25% alongside the devaluation;

30 Jul 2023 **Cairo (Egypt)** *Asharq Al Aswat*. **Switzerland**-based energy investment firm **Smartenergy** is close to reaching an agreement with authorities to establish a \$1 billion green hydrogen facility;

30 Jul 2023 **Cairo (Egypt)** *Al Arabiya*. **Palestinian** President **Mahmoud Abbas** and **Hamis** chief **Ismail Haniyeh** will attend a new round of reconciliation talks between Palestinian groups in a meeting spearheaded by Egypt;

26 Jul 2023 **Cairo (Egypt)** *International Monetary Fund*. **International Monetary Fund (IMF)** projects inflation to average 24.4% this year and rises further to 32% in 2024. This is a significant shift from its April forecast which saw inflation averaging 21.6% this year and slowing to 18.0% in 2024;

26 Jul 2023 **Cairo (Egypt)** *CAPMAS*. Egypt's external debt climbs 1.5% to \$165.4 billion in the third quarter of the 2022/2023 financial year, up from \$162.9 billion in the previous quarter. This is up almost 5% from the same quarter last year when external borrowing clocked in at \$157.8 billion;

26 Jul 2023 **Cairo (Egypt)** *Enterprise*. **Singapore**-based chemical company **Indorama** signs a memorandum of understanding with the **Sovereign Fund of Egypt** which states it is looking at potential investments in sectors such as mining, industry, fertilisers, phosphate extraction, renewable energy, and medical fibres;

25 Jul 2023 **Cairo (Egypt)** State-owned banks **Banque Misr** and the **National Bank of Egypt** launch two new **United States** dollar certificates of deposit as they look to shore up reserves of hard currency. The lenders are offering two three-year certificates - one with a 9% annual

percentage rate that pays out interest in Egyptian pounds upfront and another with a 7% rate that pays out in US dollars quarterly;

20 Jul 2023 **Cairo (Egypt) Enterprise. National Service Projects Organisation**, a military body acquires 20% of energy company **Taqa Arabia**, purchasing the shares at EGP 6.02 (\$0.19) a share, a 46% discount to the company's closing share price on Thursday and 32% below the fair value estimate.

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.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistle-blower support on one end to crisis media management and regular monitoring on the other.

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