Economy

Egypt prepares for oil and gas exploration in Red Sea

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Cairo

Egypt said it expected to invite international oil and gas companies to start exploration in its Red Sea territorial waters during the first half of 2018 after the completion of seismic and geophysical studies.

Petroleum Ministry spokesman Hamdi Abdel Aziz said two companies will "most probably finalise their studies early next year. The finalisation of the studies will make us able to invite international companies to submit their bids to explore oil and gas."

The state-run Ganoub El Wadi Petroleum Holding Company signed a $750 million contract in July for international companies to conduct seismic and geophysical studies off Egypt's Red Sea coast for the first time.

American Schlumberger and British TGS have reportedly met with officials from international oil and gas companies to sell the findings of their studies on the area.

Egypt and Saudi Arabia signed a maritime boundary demarcation deal in 2014 to define their Red Sea territorial waters in preparation for oil and gas exploration.

"The government could never have invited international companies to conduct studies on potential oil and gas reserves in the area without the deal," said Salah Hafez, a former vice-president of the General Petroleum Corporation, the executive arm of the Egyptian Petroleum Ministry.

"International companies are always afraid that the money they spend on studies such as this will get lost in the event of border disputes between countries," he said.

The maritime boundary demarcation deal included the controversial repatriation of two Red Sea islands to Saudi Arabia, a move that was met with widespread discontent in Egypt over the perceived selling off of its land.

Reports indicate that there are huge gas and oil reserves in the Red Sea area. Abdel Aziz said the ministry expected there would be 8 billion barrels of oil off the Red Sea coast.

Oil experts said this could be just a fraction of what might be discovered in the area. In August, an unnamed Petroleum Ministry source told al-Watan daily that expected reserves off the Red Sea coast could turn Egypt into a major oil-exporting country in the next decade, describing the reserves as a "game changer."

Egypt produces 147 million cubic metres of natural gas daily, which is expected to rise to 176 million cubic metres next year when production goes online from a major Mediterranean field discovered in 2015 by Italian state-owned Eni. Egypt consumes about 6 billion cubic metres of gas every day.

Egypt produces about 2.4 million barrels of oil every month. It imports an additional 1 million barrels per month to satisfy domestic demand.

A seismic study in 2009 indicated the presence of natural gas in the Red Sea area. In 2013, Saudi state-owned Aramco discovered three oil and two gas fields in the Red Sea region after using a deep-water rig. Work was halted in 2015 because of the cost of exploration and the declining price of oil.

With oil prices picking up, energy companies are expected to look towards exploration in the region.

"This actually makes us optimistic about the prospects of this region in the future," Hafez said.

There are, however, challenges, not least the cost of deep-water exploration in the Red Sea compared to the Arab Gulf. Depths in the Arab Gulf rarely exceed 100 metres but in the Red Sea they can be ten times deeper.

"The seafloor in the Red Sea is known to be rough and salt deposits are also thick," said Egyptian energy expert Ibrahim Zahran. "This, in fact, raises the cost of exploration, which can at the end scare oil companies away."

The Egyptian Petroleum Ministry expected there would be 8 billion barrels of oil off the Red Sea coast.

High hopes. Gas tanks at the desert road of Suez city north of Cairo. (Reuters)

Baghdad hits Erbil with new financial restrictions

The Arab Weekly staff

London

Iraq's central government in Baghdad moved to impose financial restrictions on the Kurdistan Regional Government (KRG) in Erbil to strengthen its authority across the country.

Iraq's central bank ordered private banks to close branches in the Kurdistan region to avoid a ban on dollar sales, Iraqi banking sources told Reuters. All banks must confirm they have closed their branches to avoid penalties, the sources said.

Iraqi banking sources said the measures were intended to control the flow of hard currency to the Kurdish region.

Central bank sources said a decision in October to stop selling dollars to four leading Kurdish banks was still in effect.

A preliminary draft of the 2018 federal budget seen by Reuters and confirmed by three lawmakers and two Iraqi government officials showed the Kurdistan region's share of the 2018 budget trimmed to 12.6%, down from the 17% the region has traditionally been entitled to since the fall of Saddam Hussein in 2003.

The 12.6% figure was "very accurate," said a government financial adviser on condition of anonymity. The adviser said it was based on population data from the Trade Ministry's ration card programme.

Iraq's central government and the Kurdish autonomous region have quarrelled over money repeatedly since Saddam's fall.

The post-Saddam constitution put in place a system guaranteeing the Kurds' self-rule with a share of overall revenue proportionate to their share of the population. For the past three years, Baghdad stopped sending funds while the Kurds held nearly all of northern Iraq's oil infrastructure and sold enough crude to fund themselves.

The Iraqi government's lightning advance on October 16 that recaptured oil-producing territory from the Kurds means the autonomous region is once again dependent on Baghdad for funds. The central government demanded a halt to independent Kurdish oil sales.

The reduced budget would dramatically add to the KRG's financial difficulties.

Another proposal in the draft budget would see the central government distribute the Kurdish region's share of the federal budget to the three provinces that make up the region individually, further undermining KRG control over the allocation of funds.

"It's a dangerous sign that indicates that Baghdad is seeking to undermine the political and economic system in Kurdistan region by cutting the budget share and dealing directly with the provinces," Ahmed Hama Rasheed, a Kurd and the secretary of the financial committee in the federal parliament, told Reuters.

Kurdish officials criticised the proposals, accusing Iraqi Prime Minister Haider al-Abadi of using the budget to punish the Kurds, who overwhelmingly voted in September to break away from Iraq in a referendum Baghdad considers illegal.

KRG Prime Minister Nechirvan Barzani, the nephew of Masoud Barzani, who stepped down as Kurdish president after the referendum crisis, said the KRG was "prepared to give them the oil revenue" – apparently an offer to negotiate over its own sales of oil – if the central government was prepared to give the Kurds their customary 17% share.

The proposed 2018 federal budget must be approved by Abadi and referred to parliament to vote on it.

Iraq's Supreme Federal Court has ruled that no region or province can secede, strengthening the government's hand as it seeks to prevent a repeat of September's referendum vote.

The court is responsible for settling disputes between Iraq's central government and the country's regions and provinces, including Kurdistan. Its decisions are final and mandatory for all parties. However, it has no mechanism to enforce its ruling in the Kurdish region.

Abadi urged the KRG to abide by the court's decision. "We call on the region to clearly state its commitment to non-separation or independence from Iraq," he said in a statement.

The ruling would strengthen Abadi's hand in future dealings with the Kurds, Ahmed Younis, a Baghdad-based constitutional expert, told Reuters.

Abadi said the government was "taking the necessary measures to impose federal authorities." Baghdad was committed to "preserving Iraq's unity and preventing any attempt for separation," he added.

Baghdad has imposed a ban on direct international flights to and from the Kurdish region.

Rising hardships. A man counts money at the Erbil Stock Exchange, on October 4. (Reuters)

Iraq's central bank ordered private banks to close their branches in the Kurdistan region.

Briefs

Aramco signs energy deals worth nearly $4.5 billion

Saudi Aramco signed on November 9 agreements worth nearly $4.5 billion with multinational oil and gas contractors, in what the company dubbed as an effort to diversify the economy.

The deals were signed with companies including Spain's Tecnicas Reunidas, Italy's Saipem, China Petroleum Pipeline and Abu Dhabi's National Petroleum Construction.

Saudi Arabia last year announced plans to sell 5% of Aramco, the kingdom's crown jewel, in what is expected to be the world's largest initial public offering.

The plan forms the cornerstone of a reform programme envisaged by Crown Prince Mohammed bin Salman bin Abdulaziz to wean the economy off its reliance on oil.

(Agence France-Presse)

Egypt inflation inches down

Egypt's inflation rate dipped for the third consecutive month in October after hitting a record high on energy price rises, leaving the central bank on course to begin loosening monetary policy.

Inflation climbed steadily after the central bank floated the Egyptian pound last November as part of reforms to secure a $12 billion International Monetary Fund loan, reaching a multi-decade high in July.

(Reuters)

Trump pleads for Saudi Arabia to list state oil company in US

US President Donald Trump said he spoke with Saudi King Salman bin Abdulaziz Al Saud about listing state-run oil company Saudi Aramco on a stock market in the United States.

Trump, speaking as Air Force One flew to Japan, said he wanted Saudi Arabia "to strongly consider the New York Stock Exchange or NASDAQ or frankly anywhere else located in this country."

(The Associated Press)

Fuel crisis hits Yemen's capital

Hundreds of cars lined roads in Sana'a after rebels who control the city ordered fuel stations to close, accusing merchants of taking advantage of a Saudi blockade to hike prices.

A Saudi-led military coalition tightened its blockade in Yemen after a ballistic missile fired by Houthi rebels was intercepted near Riyadh.

Fuel prices spiked 50%. Hassan al-Zaydi, a spokesman for the Houthi-run Oil Ministry, said merchants refused orders to keep prices fixed, prompting authorities to shut the fuel stations.

(The Associated Press)