

Egypt adopts power rationing in bid to raise LNG exports, ensure national security

Experts suggest that bolstering foreign currency reserves through LNG exports will help avert potential national security issues in the North African nation. The decree obliges all units at the state administration to ration electricity consumption during official working hours and to switch off lights at all government buildings at the end of official working hours, except for service buildings, the Egyptian State Information Service said.

The measures also oblige all shops and restaurants to abide by the official opening and closing times. Moreover, the temperature of air conditioning in malls must be adjusted to no lower than 25C and lighting must be reduced at stadiums and other big venues.

The measures come as Egypt tries to boost gas exports and battle inflation on the back of higher energy and food prices. Power generation in Egypt is dominated by natural gas, which accounts for over 70% of generation, and the country's electricity consumption has been rising steadily in recent years.

"The plan mainly aims to augment the export rates of gas and save foreign currency," the state information service said.

Justin Dargin, a MENA energy expert at the University of Oxford, told Gas Matters Today that Egypt exports nearly 1.6 Bcf/day of natural gas during periods of reduced domestic demand. However, during high demand periods, such as summer, exports are reduced by around 1 Bcf/day.

"In a nutshell, Egypt wants to conserve and reduce its domestic electricity consumption – most of it derived from natural gas – so that it can export more natural gas for hard currency generation to help alleviate its economic difficulties," Dargin said.

He added that Egypt has been particularly hard-hit by the war in Ukraine as the conflict has placed significant upward pressure on the global wheat price.

"It must be remembered that Egypt is the world's largest wheat importer, importing about eighty percent of its Supply from Russia and Ukraine," Dargin said.

"Because Egypt has an extensive food subsidy program, the increased wheat prices have added nearly \$760 million to its 2021/2022 budget, a considerable strain that endangers the food security of millions of its citizens."

Food security and bolstering foreign currency is not merely an economic issue but more of a national security issue in Egypt, Dargin suggests.

“This is a particularly fraught time for Egypt as it attempts to adhere to IMF prescribed macroeconomic reforms while keeping a lid on potential socio-political discord resulting from its deepening economic problems as the pound loses its value,” Dargin said.

“A recurrent theme throughout storied Egypt’s past is that the potential for domestic unrest becomes much greater when food security becomes unstable. For Egypt, which is still experiencing the residuals of the Arab Spring wave that crashed on its shores in 2011, buttressing its foreign currency reserves is not just an economic issue but a national security issue,” he added.

Egypt has also been hit by periodic heat waves this summer, increasing its domestic power demand, mostly by air conditioning, Dargin said.

This means the public has used more lighting as they opt to stay in during the day and engage in more activities at night. During the peak summer demand months, air conditioning accounts for 50% of power demand, Dargin said.

In addition to power rationing, Egypt is also trying to utilise more fuel oil in power generation, Dargin noted. However Cairo is well aware this could tarnish its image in the runup to the UN’s COP 27 climate summit in Sharm el Sheik in November .

A number of large gas discoveries in recent years, including the giant Zohr field, means Egypt may be in a position to export surplus gas through the 5 mtpa Damietta and 7.2 mtpa Idku liquefaction plants.

However, Egypt’s gas production has declined in recent months; it peaked at around 7.06 Bcf/d last September but slumped due to a production cap of 2.6 Bcf/d on the Zohr field that the operators implemented to reduce the impact of water infiltration, Dargin noted.

“Other fields have also experienced production outages, and Western Desert gas production is at a several-decade low,” he said.

Egypt exported about 9 Bcm of LNG in 2021, with around 6 Bcm going to Asia Pacific, however volumes may increasingly be diverted to Europe following a recent agreement with Italy’s Eni as well as a Memorandum of Understanding (MoU) with Israel and the European Union.

In the first seven months of 2022, Egypt’s LNG exports totalled ~4.1 mt. Exports dipped to just under 0.3 mt in June and July, falling from ~0.8 mt per month over March-May, one trade source told Gas Matters Today.

In the first quarter of 2022, EU countries’ LNG imports from Egypt doubled year-on-year and reached 0.9 bcm, according to the European Commission most recent gas market report. In Greece, the share of Egyptian LNG was higher than 10% in the quarter, according to the report, while the EU average was a share of 3%.

According to BP statistics, gas production in Egypt has grown by an annual average of 1.4% over the last 10 years, and stood at almost 68 Bcm in 2021. Consumption has grown by 2.6% annually in the same period and reached almost 62 Bcm in 2021. - AW