

Shell to supply 1 mtpa of LNG to Egypt

Shell plans to send 1 mtpa of LNG to Egypt's new import facility due to be launched by end of March, transforming the country into a net importer of gas, according to reports.

Speaking at Gas Arabia Summit in Dubai yesterday, Shell vice-president for the Middle East and North Africa region Mounir Bouaziz said the supplies will start this year. "LNG is becoming the solution of choice," he said.

Egypt has already concluded three other LNG import deals to provide up to 2.77 MMcm/d of LNG. The first shipments, consisting of five LNG carriers, were due to arrive from Algeria at the end of last year.

But initial negotiations with Norway's Hoegh fell through and new agreements were only reached last November, which delayed the start up of the floating and regasification unit (FSRU).

Hoegh's Gallant FSRU is now set to start by the end of Q1 this year. The unit's arrival will mark Egypt's passage from being a net gas exporter into a net importer.

Egyptian gas demand has more or less doubled in recent years, with EIA data showing consumption at 999 Bcf in 2006 rising to 1,881 Bcf in 2012. Over the same period, production has been in decline, falling from 2,213 Bcf in 2009 to 2,141 Bcf in 2012.

Egypt is rushing to launch the FSRU before this summer, when its demand peaks owing to heavy usage of electric-powered air conditioning.

Apart from the deal with Algeria, Egypt has also signed preliminary import agreements for seven cargoes from Gazprom and five cargoes from EDF. The country is expected to complete the agreement with Gazprom later this month.

Egypt is also considering importing gas from Israel, the country's minister of petroleum and mineral resources Sherif Ismail Mohamed said yesterday.

"Anything can happen. Whatever achieves the best interests of Egypt, and of the Egyptian economy and the role of Egypt in the region," he said in an interview with state-owned magazine Al Mussawar. "That will determine the decision to import gas from Israel".

But LNG imports should only be a medium-term solution for the country, as they are very expensive, Middle East gas expert Justin Dargin told Gas Matters Today.

Other options, including the development of domestic gas reserves should be pursued in the longer term, he said.

"LNG is – at least for a country such as Egypt – a very, very expensive solution, as Egypt is still a developing country with significant poverty," Dargin said.

"Egypt is having difficulty finding a means to pay for its future LNG imports. However, it has set aside approximately USD 700 million in the 2014 budget to cover the cost of imports. Furthermore, it is likely that Egypt's Gulf patrons will step in to assist when necessary," he added.

The country should be able to step out of its energy crisis by 2018 as a result of increased upstream investment and reduced per-capita energy consumption, Dargin said.

Egypt enjoyed a successful bidding round for the development of its gas reserves late last year, showing signs of a possible recovery from the considerable drop in domestic production amid increasing demand.

The successful bidding round came after the new government announced more attractive investment terms for upstream developers last summer, together with the gradual removal of the burdensome price subsidy regime and a plan to limit domestic consumption.

“If we contrast the enthusiastic response to the latest Egyptian bidding round with tepid interest in Algeria’s recent bidding round, it is clear that international operators view the future viability of these two countries quite differently, with Egypt – despite its wide ranging problems – proving itself a regional investment destination,” Dargin said.

“To produce from new fields takes time, maybe 5-7 years, so in the short term, Egypt will need to import LNG,” he said.

“However, in about 5-8 years, Egypt may be able to increase its own domestic production to meet its needs and not have to import LNG,” he added.

Read more about the recent changes in Egypt’s energy policy and its challenges here: [1]



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