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## Conducting oil and gas activities in Egypt

### Laws and regulations

#### List the main legislation governing petroleum exploration and production activity in your country.

- Law No. 66/1953, On Mines and Quarries, also establishing the General Egyptian Petroleum Organization under the Ministry of Industry (**'Fuels Material Law'**), and the Ministerial Decree No. 758/1972, Promulgating the Executive Regulations of Law No. 66/1953;
- Law No. 135/1956, as amended by Law No. 167/1958, establishing 'The General Corporation of Petroleum Affairs', as amended by Law No. 20/1976, regarding The Egyptian General Petroleum Authority (more commonly referred to as the Egyptian General Petroleum Corporation, or **'EGPC'**);
- Prime Ministerial. Decree No. 1009/2001, Concerning the Establishment of the Egyptian Holding Company for Natural Gases (**'EGAS'**), as amended by Prime Ministerial. Decree. No. 1580/2003; and
- Prime Ministerial. Decree No. 1755/2002, Concerning the Establishment of the Ganoube El-Wadi Holding Petroleum Company (**'GANOPE'**), as amended.

#### Identify the Government, regulatory and/or oversight bodies principally responsible for regulating oil and gas activities.

The Egyptian Ministry of Petroleum (**'MOP'**) is the Government authority responsible for the development and regulation of the entire chain of activities concerning the oil and gas industry in Egypt acting mainly through EGPC, EGAS and GANOPE.

### Entry requirements

#### What are the registration requirements for becoming a licensee of an oil and gas production sharing contract/licence/concession (**'Licence'**) in your country? For instance, is it necessary to incorporate a subsidiary, or register a branch?

A contractor company may conduct geological reconnaissance, and subsequent initial exploration activities pursuant to a concession agreement (which is issued in the form of a special law) without incorporation of an entity, subsidiary or registering a branch in Egypt.

While there is no specific requirement, as a result of the typical requirement that the contractor company maintain an 'office' in Egypt for the purposes of notices and other practical and logistical reasons, contractor companies typically establish branches in Egypt at the start of their operations.

Upon commercial oil and/or gas discovery, a non-profit joint venture between the contractor company (50% stake) and the relevant authority (either of EGPC/EGAS/GANOPE) (50% stake) will be required to be established in the form of a special joint stock company, (the **'Operating Company'**), which is exempted from a number of other otherwise applicable provisions, to act as the operating company for exploiting such commercial discovery for the duration of the concession. The Operating Company acts as an agent for EGPC/EGAS/GANOPE and the contractor company to carry out and conduct the exploration, development and exploitation operations under the concession agreement.

## Are there any foreign investment approval requirements or restrictions when commencing business in your country (e.g. a minimum local shareholding in the entity undertaking the activity)?

The articles of association for the Operating Company are originally set out as an annex to the concession agreement and its corresponding law requiring 50% participation of the relevant authority (either of EGPC/EGAS/GANOPE). Once a commercial oil and/or gas discovery is made, the Operating Company automatically comes into existence within 30 days of the discovery, the signature of a gas sales agreement or other disposal, without any further procedures.

## Licensing

### Identify the main fiscal/legal model granting rights to explore and produce oil and gas.

#### Legal

An initial Licence can be obtained for the purpose of conducting geological reconnaissance. Where the results of such reconnaissance lead to further oil and gas prospecting or exploration, a preliminary agreement is reached for the establishment of a concession. A law is then issued approving or allowing the MOP to enter into the concession agreement between the Arab Republic of Egypt, the relevant authority (either of EGPC/EGAS/GANOPE), and the contractor company. The concession agreement confers exclusive rights for both the prospecting and eventual exploitation of oil and gas, whether onshore or offshore.

As all concession agreements are laws, they are published and generally follow a standard format, with limited deviation.

#### Fiscal

Concession agreements establish a schedule for: (i) minimum expenditure during both the prospecting and exploitation periods of the concession; (ii) royalties payable to the Arab Republic of Egypt in cash or in kind (10%) for any quantity of oil or gas produced and saved, if any; (iii) both mandatory and voluntary relinquishment of certain concession areas under certain conditions; (iv) recovery of costs and expenses (usually 35% to 40%); (v) schedule of oil and gas production sharing between EGPC/EGAS/GANOPE and the contractor company depending on the amounts produced and saved; and (vi) any signing, assignment, or applicable production bonus.

The contractor company and the Operating Company are exempted from custom duties, effective taxes (see below), levies and fees related to the import of machinery, appliances, vehicles, hardware, software and most other items used in their operations. However, such exemption does not apply where items of the same or substantially similar kind and quality are manufactured locally at comparable prices.

Generally, the contractor company is subject to Egyptian income tax at the rate of 40.55% and must file returns, assessment of tax and bookkeeping, which are to be grossed up as set out in the concession agreement. In any event, the relevant authority (either of EGPC/EGAS/GANOPE) assumes, pays and discharges, in the name of the contractor company, its Egyptian income tax out of EGPC/EGAS/GANOPE's share of the petroleum produced and saved as set out in the concession agreement.

There are applicable local content requirements on material, equipment, machinery, consumables and contractors/subcontractors, limited to a price differential of 10% above the international provider.

### Please outline the procedure to apply to the Government for an interest in a Licence in your country.

#### Please include details of cost and timing for obtaining such interest.

Initial applications for geological reconnaissance are submitted at any time to EGPC/EGAS/GANOPE pursuant to a standard regulatory format, accompanied by a nominal examination fee of EGP 5.

Applications for oil prospecting licences are submitted at any time to EGPC/EGAS/GANOPE pursuant to a standard regulatory format, accompanied by: (i) a nominal examination fee of EGP 5; (ii) a settlement cash deposit equivalent to the rental value of the prospecting area payable for the first year; (iii) a cadastral map of any prior oil prospecting area conducted by the contractor company; (iv) a cadastral map of the geographical coordinates of the current oil prospecting area desired; and (v) a signed copy of EGPC/EGAS/GANOPE conditions of licence.

Alternatively, particularly recently, EGPC has begun tendering prospective oil and gas exploration sites in bid rounds. See also Law No. 89 of the year 1998 promulgating the Law Organizing Tenders and Bids ('**Tender Law**').

The applicant is usually required to submit documented evidence of financial and technical capabilities to fulfil any oil and gas related operations and obligations.

If approved, EGPC/EGAS/GANOPE forwards the oil prospecting licence application to the Minister of Petroleum to issue the corresponding law setting out, inter alia, the concession agreement and eventual articles of incorporation of the Operating Company.

The contractor company covers the costs of exploration. In the event of a commercial discovery, exploration costs are recoverable under a production sharing agreement, executed in line with the concession agreement.

### **What is the customary duration of the relevant Licence?**

An initial exploration period is granted for varying terms (usually 3 years), with varying number of optional successive extensions (usually 2) of varying terms (usually 2 years each) but with a final termination sunset date (usually 7 to 9 years from the beginning of the exploration period) usually extendable only once for a period of 6 months. In any event, at each extension, a schedule sets out that certain minimum amount of the prospecting area that must be relinquished either mandatorily or voluntarily.

Upon a commercial oil and/or gas discovery, the area capable of production is converted into a development lease agreed between the parties, subject to approval by the Minister of Petroleum, automatically and without the issue of any additional legal instrument or permission.

The development lease for exploitation of oil and/or gas under a concession agreement in Egypt is usually granted for 20 years, extendable in periods of usually 5 years subject to terms and conditions, but in no event beyond a total of usually 35 years.

### **Does the Government have any right to participate and be carried in the Licence? If so, please describe the extent of this entitlement.**

#### **Is there any mechanism for recovery of carry costs?**

The Government is heavily involved in its participation in the sharing of production oil and gas proceeds. Indeed, Egyptian laws require that EGPC/EGAS/GANOPE have an equal share participation in the Operating Company mainly in order to have a logistical/supervisory role, and to make sure that expenses and costs are properly amortised, production proceeds are properly shared, taxes are properly accounted for, and the works are largely carried out in conjunction with national energy policies set by the Government.

### **Does the Government have any right to participate in the operatorship of the Licence?**

Yes, it has a 50% participation in the Operating Company.

## Assignment

### **What Government and/or regulatory approvals are required for the acquisition of oil and gas interests held under a Licence whether by asset or corporate sale/change of control?**

#### **If any, what are the timing requirements and costs of obtaining such Government and/or regulatory approvals?**

No rights, privileges, duties, or obligations in an existing concession agreement may be assigned or leased to a third party, in whole or in part, directly or indirectly without prior written Government consent.

A request for approval of an assignment must be submitted to the Government demonstrating: (i) that the current concession holder and assignor has satisfactorily fulfilled all its obligations pursuant to the concession agreement to date, particularly with respect to any rental, royalty, duties, etc. payable; (ii) that the intended assignee has the technical and financial capability to carry out all duties and obligations under the concession agreement; (iii) that it shall warrant and represent it shall abide to all terms and conditions of the concession agreement, as amended; (iv) evidence that the area being assigned is actually operational through at least one oil production well; and (v) the final terms of the assignment between assignor and assignee.

With respect to asset or corporate sale/change of control, the Fuels Material Law does not directly address the notion of an underlying 'change of control' of a contractor company, nor the threshold as to when such change amounts to an indirect assignment.

### **Are there any pre-emptive rights reserved to any Government entities in the event of a proposed assignment of an interest held under a Licence? If so, what are the terms upon which such entities are allowed to acquire the interest?**

EGPC/EGAS/GANOPE retains pre-emptive rights in the typical concession agreement. Upon receipt of the final terms and conditions of the intended assignment in conjunction with the application for the assignment, EGPC/EGAS/GANOPE has 60 days to exercise their pre-emptive right and acquire the interest intended to be assigned under the same terms and conditions, subject only to Government approval as above.

Where EGPC/EGAS/GANOPE fail to exercise their option within the 60 days, the assignor has the right to proceed with the assignment, and EGPC/EGAS/GANOPE must enter into good faith efforts to finalise the new agreement for the new operating company. In the event of failure to agree within 120 days, the assignor shall nonetheless have the right to assign the proposed interests to the assignee.

## Economic Support

### **Are parental guarantees or other economic supports commonly required to be provided by oil and gas companies?**

No, but an applicant contractor company is usually required to submit documented evidence of financial and technical capabilities to fulfil any oil and gas related operations and obligations.

### **Are security deposits required in respect of work commitments or otherwise?**

Yes, a bank letter of guarantee is usually required covering the minimum amount required by the concession holder to spend during the first exploration period, reduced quarterly during the period of expenditure. Similar letters of guarantee are usually required for extensions of the period of expenditure.

## Abandonment and Decommissioning

### What abandonment regime is in place?

### Are security deposits required in respect of future decommissioning liabilities?

To date there is no legislation covering decommissioning activities.

In practice, either a farm-out agreement or a joint operating agreement usually sets out the parties' agreements relating to abandonment of activities and/or decommissioning. Commonly, all assets revert to EGPC and all liabilities and obligations whether financial or contractual remain those of the contractor company, including any assignees.

Otherwise, the work programme and budget for the Operating Company, as agreed between the contractor company and EGPC/EGAS/GANOPE, should address and account for eventual decommissioning activities.

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