

PETROLEUM LEGISLATION EVOLUTION

IN A CENTURY

Potential for oil in Egypt was recognised as early as 1868 when mining for sulphur along the Western Coast of the Gulf of Suez oil seepage was recorded. In 1886, the first exploration well for oil was spudded in Gemsa area, which discovered oil at a relatively shallow depth in the Miocene strata.

With the beginning of the British Occupation of Egypt, concessions for exploration for oil in Egypt were held by some British Nationals e.g. Sir Edwin Palmer in 1899.

Right from the beginning of exploration, the Egyptian Government has adopted a policy that would avoid taking any shares in oil exploration or exploitation as long as there was a risk involved. On January 13, 1906; the Council of Ministers approved the standard form according to which exploration licences would be awarded. The following were the main considerations:

- 1- The area shouldn't exceed 25 square miles and a charge of L.E. 25 to be paid annually.
- 2- Licence duration will be one year apt to be renewed.
- 3- The area of the exploitation lease shouldn't exceed 5000 feddans. The duration for exploitation is 30 years which may be renewed for an additional 15 years.
- 4- The annual rent for the licence will be P.T. 12.5 per feddan.
- 5- Additionally a royalty of P.T. 2.5 / 100 oil gallons should be paid.

These rules were amended by the Council of Ministers on October 23, 1910 as follows:

The Exploration Licence:

The licensee should have carried out geological survey and would keep one active rig in order to renew the licence for another year.

PETROLEUM MINING LEASE No. 1

District

Cairo

AGREEMENT under seal made in duplicate the *twenty-first day of August*, nineteen hundred and *twelve*
 BETWEEN,
 THE EGYPTIAN GOVERNMENT, represented by *Ahmed Hilmi Pasha*, Minister of Finance (hereinafter called the Minister, which
 term shall include the Minister of Finance for the time being), thereto duly authorized by a decision of the Council of Ministers of His Highness the Khedive dated the
twenty-first day of May, nineteen hundred and ten, of the one part;
 AND *The Anglo-Egyptian Petroleum Company Limited*
 of *21, Buny Street, St. Mary Axe, London E.C. 4.* (hereinafter called the Lessee) of the other part;
 WHEREBY IT IS AGREED AS FOLLOWS:—

Term of the
 Lease and Date
 of Authorisation
 Specified
 Minerals.
 Beneficial Area.
 Powers.
 Future interests
 granted under
 this Lease.
 Plans of
 Railway,
 Road, or of
 Buildings or
 Works, to be
 submitted.

1.—The Government hereby grants unto the Lessee full and exclusive right at all times, during the term of thirty years, from the *twenty-first day of August* nineteen hundred and *twelve* to search for, dig, mine, get, and carry away all petroleum and petroleum gas lying in and under any part of the piece of land described in the schedule hereinafter contained, and also grants to the Lessee, subject to the provisions hereinafter contained, all such powers of sinking shafts and wells, laying down, using and working and removing railways, tramways, or pipe-lines, obtaining, conveying and using water and gas, making roads and erecting or constructing and removing machinery, buildings, or other works upon the scheduled land as may be necessary or proper for the raising and storage of petroleum and petroleum gas and for the transport thereof within the area of the scheduled land. The Government will, if required, grant to the Lessee by a separate agreement or agreements all such further rights as may be necessary or proper to enable the Lessee to provide for the raising of such petroleum and petroleum gas and otherwise taking full advantage of the Lease hereby granted upon such terms as may be agreed upon.

Plans of
 Railway,
 Road, or of
 Buildings or
 Works, to be
 submitted.

2.—The Lessee shall not lay down any railways, tramways, or pipe-lines other than for temporary purposes, nor erect or construct any permanent building or works on the scheduled land until plans showing the proposed sites for the same have been submitted to and approved by the Department of Mines. All plans so submitted shall be considered by the Department with all convenient speed and shall, unless the Department shall have otherwise notified the Lessee, be deemed to have been approved at the expiration of thirty days from the date of their reception by the Department.

Not to vest
 Ownership of
 Land.

3.—Nothing herein contained shall be construed as vesting in the Lessee the ownership of any part of the scheduled land, nor as conferring on the Lessee any further or other rights over the scheduled land than those expressly granted to him by this Agreement, nor as preventing the Government from dealing with the scheduled land in any manner it may think proper which shall be consistent with the full exercise by the Lessee of his rights hereunder.

Rent Rent.

4.—The Lessee shall, in respect of each year of the said term, pay to the Egyptian Ministry of Finance in advance on the first day of January in each year, a rent of twelve and a half piastres tariff per acre of the scheduled land for the time being held under this Lease.

Royalty.

5.—The Lessee shall also pay to the said Ministry at the end of each year of the term hereby granted royalties in respect of all petroleum and petroleum gas raised from the scheduled land during that year at the following rates:—
 On every 100 (hundred) gallons of raw oil raised and saved P.T. 2½ (two and a half piastres tariff).
 On all petroleum gas raised and saved, except so much as may be utilized for the purpose of raising and saving petroleum and petroleum gas under this Lease, 5% (five per cent) on the sale value.

Renewal of
 Lease.

6.—If at the expiration of the term hereby created it shall be shewn to the satisfaction of the Government that the Lessee is carrying on work in a normal and business-like manner in accordance with the terms of this Lease, and if this Lease shall not at that time be liable to be declared void under any of the provisions herein contained, and if the Lessee shall have given to the Minister six calendar months' notice in that behalf, then the term hereby created shall be continued for a further period of fifteen years under and subject to the same rents, royalties, conditions and provisions.

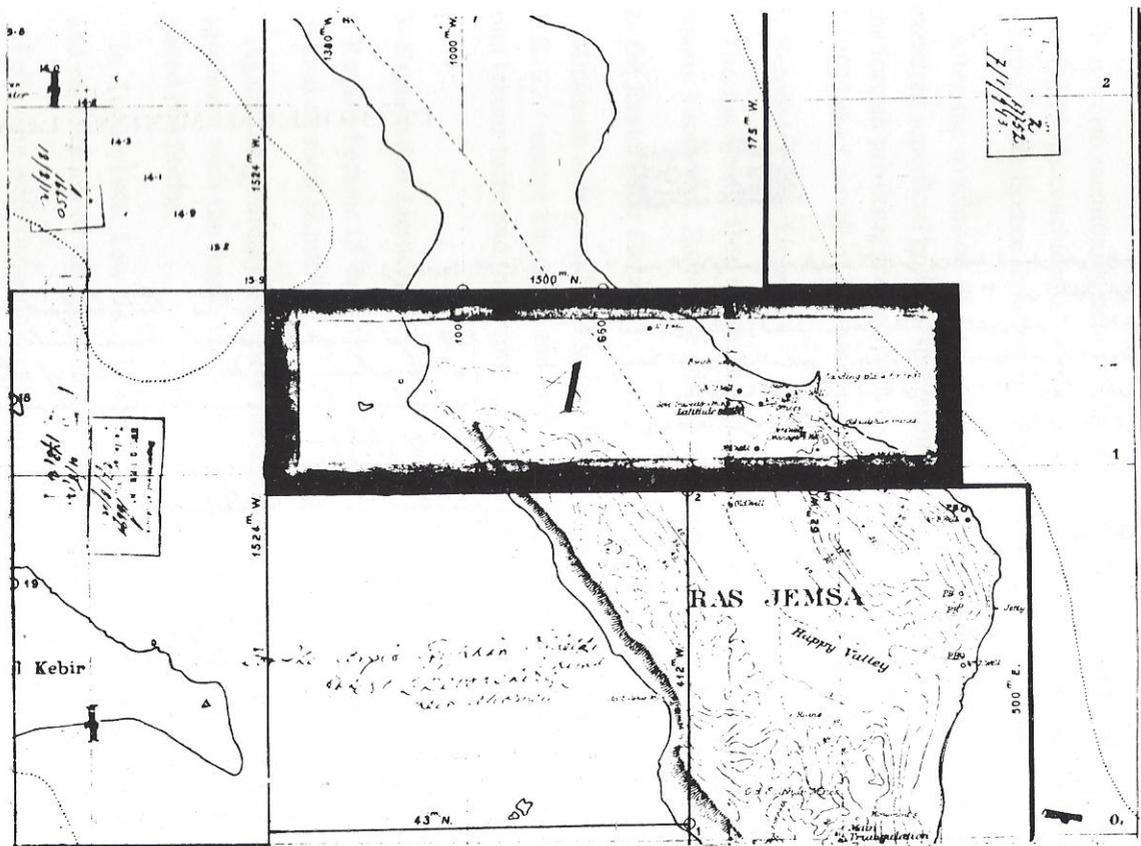
Lease not to
 Assign without
 Consent.

7.—The Lessee shall not be entitled to assign or underlet in whole or in part any of the rights hereby granted except with the consent in writing of the Minister. Such consent will be given—

Conditions of
 Consent.

(1) In respect of a rectangular area which shall not be less than 25 (twenty-five) feet in extent and of which the length shall not exceed four times the breadth, unless the Department of Mines shall have authorized in writing some other form or dimensions; and
 (2) In respect of an area in which the existence of petroleum has been established by a lease-one productive well or otherwise to the satisfaction of the Department of Mines; and
 (3) In case of a proposed assignment or an lease to a person or company who shall satisfy the Minister as to his or their financial capacity to undertake the necessary work. For the purposes of this clause an available working capital of at least £100 (one hundred pounds sterling) per acre with a minimum of £10,000 (ten thousand pounds sterling) will be required.
 Provided always that the Minister shall in no case be bound to consent to any assignment or underlease unless all the conditions of this Lease have been observed and all rent and royalties due hereunder have been paid by the Lessee.

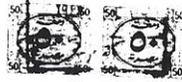
Petroleum Production Lease No.1, signed on August 21,1912



The Location Map of Lease No.1 at Gemsa

PETROLEUM MINING LEASE

No. 1



بمعد الاطلاع على تصريح السيد الدائن من عقد اجار البترول رقم 1 ولى
 تصريح السيد 24 من الاثناثة المبرمة في سنة 1913 بين الحكومة وشركة الانجلى
 اجميتيان اوليفلد زلميند يحدد عقد اجار البترول رقم 1 لمدة خمسة عشر
 سنة اخرى ابتداء من يوم 7 يونيو سنة 1913 طبقا للشروط المدونة بالمعقد
 رقم 1 وبالاتفاضة المبرمة مع الشركة في سنة 1913 ولى ان تكون الاثارة
 التي تدفعها الشركة للحكومة هي 10 ٪ (عشرة في المائة) تقسدا
 او عننا *

Schedule

The size of land is that portion
 250 acres in extent coloured brown numbered
 1 on the attached map the boundaries of which
 are defined by Government Survey Plans
 numbered 2, 3, 4 and 5.

Full particulars of the Survey are
 registered in the Department of Mines.

وزير المالية

تحريرا في

3279
 21/5/14

27/5/14
 4478

501
 1951/7/10

10674
 25/11/11

Renewal of Lease No.1 at Gamsa

- The Exploitation Licence:

Area should not exceed one square kilometer (100 Hectars), for L.E 2.5 / Hec-tar. The royalty was increased to 7.5 %.

During 1920-1922 the exploration licence fee and the royalty were increased to L.E. 100 and 25 % respectively.

It is worth mentioning here that the Egyptian Government and the Anglo Egyptian Oil Fields concluded a special agreement according to which many exceptions relating to the licence duration and exploration areas were made.

After the conclusion of 1936 alliance treaty between Egypt and Britain; Egypt exercised superficial political sovereignty. It was agreed by both parties to cancell all the foreign privileges granted prior to conclusion of the alliance treaty. On January 10,1937 the Council of Ministers approved the following amendments:

1. Reconnaissance Licence:

The maximum area which should be held for one year shouldn't exceed 100 square kilometers. Such lease will be subjected to a fee of L.E. 10.

2- Oil Exploration Licence:

Minimum area would be 4 square kilometers and no maximum limits, annual fee L.E. 25 / square kilometer and minimum of L.E. 100 for each licence. The Egyptian labour force and the employees shouldn't be less than 90 % and 50 % respectively.

3- Exploitation Licence:

Royalty became 15 % of the produced oil; to be paid in cash every six months or in kind as soon as possible.

Again, on February 17, 1937 the Egyptian Government allowed in a special agreement with the Anglo Egyptian Oil Fields; many exceptions to the aforementioned conditions.

In August 1948, Law No. 136 was endorsed in order to systemize the exploration and exploitation of the Egyptian natural resources.

Following were the additional conditions laid down by Law No. 136:

1. All mineral ores, chemical elements and precious stones the Egyptian land comprises are exclusively state property.

2. The exploitation licence should be preceded by an exploration licence.
3. The exploitation rights should be held by an Egyptian Company.
4. The exploration and exploitation fees as well as the royalty ratio were revised.

This law made most of the foreign companies operating in Egypt uncertain of their rights to extract what they have already discovered so they became reluctant to operate any more in the country.

After the **23rd July Revolution**, the government tried to attract the international oil companies. Law No.66 / 1953 was issued according to which the terms and conditions were revised as follows:

- 1- The company has the right to have a reconnaissance permit before performing any exploration activity. The government can give more than one permit for the same area.
- 2- The exploration permit can be renewed annually up to the 8th year with L.E 2500 rise in fees each year. The government also has the right to extend the permit beyond the 8th year.
- 3- Bidding of open areas is a must.
- 4- The duration of the exploitation lease and its renewal would be up to the contractor's desire but shouldn't exceed 30 and 15 years respectively. Any more extensions should be approved by the Minister and issued by a law.
- 5- Exploration and exploitation permits can be acquired by any natural person. Egyptians would have priority within certain limits. This was a good point against Law No. 136 / 1948 which deprived the foreigners this right.
- 6- To encourage exploration in the Western Desert; the law stated that the exploration permit area might be increased up to 400 square kilometers, starting the 3rd year the fee is only 25 % and royalty becomes only 66 % of the original ratio.

On February 3, 1954 an agreement was concluded between the Egyptian Government and Sahara which comprised the following amendments to law No. 66 / 1953.

1. Duration of the contract 30 years, can be renewed for another 30 years. The company should relinquish 25 % of the original area at the end of 3rd and 6th year, and to relinquish the whole remaining part at the end of the 12th year or to keep in addition of the exploitation areas, a number of 50 different areas 400 square kilometers each.
2. The company should spend a certain expenditure during the various stages.

3. Royalty would be 15 % during the first 10 years of production then increased to 25 % till the end of the contract.

Within the period 1954-1963 joint venture basis agreements were concluded. The main features of these agreements were:

1. The company should explore a certain area during a limited period and to commit and fund a specific program. In case the company discovers no oil the government will not bear any expenses incurred by the contractor.
2. In case of an oil discovery the government would pay 50 % of the costs. A joint venture company will be formed to develop the discovery. Development expenses should be shared between the company and the government on a 50 % basis. Production should be shared according to the basis agreed upon.

As the agreements with the international enterprises for the exploration and exploitation of natural resources are affected by various factors; on which the government has no direct control, the Egyptian Government was obliged to liberate the regulations of these agreements from the mining laws.

So it was stated in Law No. 86 / 1956 that the Minister would be authorized to assign any company or organization looking for fuel material under certain specific conditions and commitments. The foreign companies were still reluctant to undertake any activities in Egypt under the prevailing law to exert economic pressure on the government.

At the beginning of 1973 the first Petroleum Ministry was established. After 6th October War many international companies tried to acquire concessions in Egypt. With the exception of BRASPETRO agreement, all the other agreements thereafter were concluded on the basis of production sharing.

The main features of production sharing contract were:

1. The contractor has to commit certain obligations (technical & financial) during limited exploration phases.
2. The duration of the development lease would be 20 years which may be extended for another 5 or 10 years period.
3. The cost recovery crude would be 40 %.
4. The remaining 60 % should be split between the operator and the government (70 - 88 % government share).

In response to the above terms intensive exploration programs were carried out by

the various companies and many oil and gas discoveries have been made in the different areas of the Egyptian territory which justifies the relaxed terms and conditions.

As the gas reserves significantly increased; the government tried to compensate the operator in case of gas discovery, more or less on similar basis to that of oil, just after the achievement of 12 trillion cubic feet as a gas reserve. If that national gas reserve is not fulfilled, the operator has the option either to get a refund for its expenses or to develop the discovery on the expense of EGPC.

It is worth mentioning that since 1973 till present, more than one hundred agreements and amendments were concluded with the international oil companies, out of which about 20 agreements were turned into production after discovering oil.

So far EGPC is doing its best in amending some articles as to minimize the risk burden by the operator in a way that fits the dramatic changes in oil price.