# Sticking the BOOT in

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The Egyptian macro picture has been somewhat bleak of late. This will change. And despite a local liquidity crunch, a raft of private development BOOT projects, and some landmark gas schemes, are back on the agenda.

The recent troubles can be traced back to four agonizing misfortunes: a huge import surge of cheap goods from a then crisis-worn Asia; a dive in oil prices undermining the domestic energy sector; a tourist industry buckling from the effects of the Luxor massacre; and a loss of revenue from the Suez canal. The result ? a growing imbalance in the current account that fed a frenzied appetite for dollars.

An arguably chaotic monetary policy, which struggled over 18 months to guard a fixed (and overvalued) exchange rate by pumping in $5 billion of foreign exchange reserves, did nothing to help the scenario. Economic fact worsened. But the government nevertheless proclaimed a real growth rate of 6%, low inflation, shrinking budget deficits, and stable foreign currency reserves healthily responsive to market forces.

Explains one senior Washington-based economist, ?they [the government] were hubristic, and they effectively put up impediments to imports. And then, the business community started experiencing delays and foreign investors were asking when they'd be able to repatriate their money.? Not a propitious scenario. And one which led to the market slump of the last year.

To compound investor concerns, Standard & Poor's assigned Egypt a BBB-, the lowest investment grade (though investment grade nonetheless), but then downgraded the country's rating outlook from stable to negative, precisely due to concerns over wider fiscal deficits and the pace of structural reform.

But the government discarded previous rhetoric and at the end of last year acknowledged, albeit reservedly, the existence of underlying problems, in what many take to have been the first step towards introducing adequately combative policies.

At any rate, the consequence of these economic tremors has been a liquidity crunch which has, among other things, made it all the more difficult to get a lot of proposed infrastructure projects off the ground. ?There just simply hasn't been enough money for the right kind of government support for a lot of essential infrastructure schemes that have been on the calendar for a long time,? says a Cairo-based banker. ?And without that support, foreign developers are more hesitant to commit.?

One partial solution to the problem was for the government to deal swiftly with monetary policy. Says one expert, ?they should do the right thing and just float the exchange rate, so we can achieve a proper valuation of the pound.? This has not happened. Nor is it likely to happen soon. But what has happened is the introduction in January this year of a new system for the exchange rate based on a managed peg against the dollar. So far, the exchange rate has edged down slightly, the trade deficit is decreasing and capital flight has been limited. And with these developments, a rebound of confidence, albeit slight.

Aside from fixing monetary policy, says the World Bank, ?encouraging exports is the least painful way out of the current economic debacle. This is an immediate policy imperative ? kickstart exports.? And it is on this point that Egypt has progressed most substantially, with the fortuitous discovery of sizeable gas reserves sufficient to turn the country into a net exporter. In fact, the government is close to concluding its first liquefied natural gas (LNG) export deals, which offer the prospect of fixing a principal new source of revenues for the next three decades.

The final prescription to bolster the economy's stamina is to sell off major public enterprises ? telecoms, power and cement. And after months of stagnation, that idea is considerably closer to realization, with the appointment of leading international advisory teams to facilitate the process.

**Privatization**

Egypt's privatization drive began in the mid-1990s amid much flurry and fanfare. Since then, 126 out of a planned 314 state owned industrial companies were fully or partially privatized. But then the momentum ebbed, with the government retreating from many of the major promised utility privatizations. Says one local lawyer, ?the backsliding in the program was basically a result of political hesitation ? with any such utility sales, you're naturally affecting prices and services, and that could impact negatively on the bulk of the population.?

A vast spread of state-owned utilities remains to be sold, representing a much greater challenge than the sale of industrial companies. But now, it seems the government is poised to aggressively pursue its utility privatization plans anew, urged on in part by the need for cash. The proposed unbundling and privatization of state owned power and telecom sectors are, of course, both the ultimate tests of the government's commitment to its privatization program.

So far, the telecoms sector has not lived up to expectations. This, of course, is not solely a domestic phenomenon. The government had initially made significant advances in the sector's privatization back in 1998, with two license acquisitions (for Egyptian Company for Mobile Services and Misrfone respectively) and subsequent network build out projects, successfully financed through a mixture of international and domestic debt.

But last year's crucial Egypt Telecom IPO was forced to postponement because of poor market conditions. The Ministry of Telecommunications nonetheless claims full commitment to the transformation of Egypt Telecom into a partially owned private entity, because of its key role in economic development. At the same time, the process of amending relevant legislation is underway.

The government recently appointed a team led by Merrill Lynch to advise on the strategic sale of a 20-34% stake in Telecom Egypt. Merrill Lynch will be working on the deal with Commercial International Bank (CIB), KPMG and Baker & Mckenzie. CIB and KPMG, together with ABN Amro Rothschild, are also advising on the IPO option.

Telecom Egypt is the sole provider of fixed telephone services in the country, with about 5.5 million access lines. The company has said it plans to launch a mobile phone service by the end of 2002. But given current market conditions worldwide, the difficulties that delayed the IPO may yet affect a strategic sale.

Says the IFC's Tarek Allouba, ?privatization of infrastructure and utilities has not lost its priority. It needs to be kept within the perspective of prevailing macroeconomic conditions which, if anything, make privatization all the more pressing right now.?

In any event, the importance of Egypt Telecom's sale cannot be understated. As one senior government adviser puts it, ? we have to wait and see what the optimal amount is that can be sold to foreign investors. The trend for other sectors will likely be set by Egypt Telecom.?

**Privatizing power**

And the key area yet to privatize is the power sector. Of course, the sector has already been established as a major point of attraction for foreign private investors, with the much-vaunted entry of independent power production.

With Egypt's booming population growth and emerging economy, electricity consumption has tripled over the last two decades. Peak load consumption has surpassed 12,000MW, with installed capacity now at 15,200MW. Demand for electricity is growing at an annual rate of 7%, making it in principle a highly lucrative sector for foreign and local investment.

?The massive increase in demand for electricity and the urgent need to shift state resources to other areas has essentially put private sector participation in the generation and distribution of power squarely on the program over the last two years,? explains local consultant Hussain Lotfy.

The government's strategy consists of two components: liberalization and privatization of the sector, including all essential legal and regulatory development for each.

But privatization to date has been sluggish at best. Says a local lawyer, ?the process has been delayed by a few obvious obstacles ? the absence of a proper regulatory authority, electricity company indebtedness and the lack of market driven pricing scenarios which make them unattractive investments.?

Recently, however, the government has issued several new laws to promote private sector participation in the sector, while also issuing a decree to reorganize regulatory bodies. Over the last year, the program was put on hold over the last year to allow for the Egyptian Electricity Authority's (EEA) transformation to the Egyptian Electricity Holding Company (EEC). The recently completed set up of the EEC as a joint stock company marked the sector's first major advance towards privatization. The company assumes all its predecessor's responsibilities and will promote the liberalization and development of the sector.

The EEC also secured a new board of directors recently, headed up by veteran Nabil Younes. The reshuffle has been widely regarded as yet another mark of the government's commitment to privatization of the sector.

The full plan recently moved a step closer to its fulfillment with the approval of plans to restructure the seven integrated electricity companies. Electricity & Energy Minister Ali el-Saeedi announced that a proposal to separate power generation from distribution, and to set up new state-owned companies responsible for transmission and control systems, has been approved.

Under the new system, there will be five generating companies. Four will own and operate thermal plants, and will be open to privatization. The fifth, to remain in public hands, will run hydroelectric plants. In addition, there will be seven distribution companies. Tariffs, which have been fixed for the last decade, will not be raised, but will continue to be subsidized by the government (at around LE1.6 billion a year). Merrill Lynch is leading the team advising the government on power sector restructuring and privatization.

After the full establishment of regulatory bodies and the resolution of existing debt issues, the government is expected to offer a tranche of electricity distribution company shares between 10% and 20%, ultimately ratcheting up to 49%.

Private power generation was first introduced conceptually in 1996, with the passage of Law 100, which permitted the private sector to build, own, operate and transfer (BOOT) power generation facilities. This was followed in 1998 with Egypt's first BOOT concession in the power sector ? Sidi Krir.

The 682.5MW project is being developed by sponsors InterGen (61%) and Edison (39%).

Says Intergen's vice president and country executive, Tom Thomason, ?Sidi Krir was smooth because all the uncertainties had been squeezed out at the beginning. The bidders were able to bid on a level playing field. Moreover, the bidding process was handled successfully and with complete transparency.?

Ultimately the deal (winner of Project Finance's 1999 Middle East Power Deal of the Year Award) marked the first significant attempt to place uncovered long-term Egyptian project debt in the international market. In fact, it was the only fully uncovered deal in an emerging market that year (between March 1998 and July 1999).

The $342.5 million in debt for the project split into four tranches and one guaranteed equity bridge loan, and between international and local currency facilities, although all portions were drawn in dollars. The final structure also allows for good refinancing flexibility.

Mandated international lead arrangers for the $130 million international tranche were ABN Amro, Dresdner Kleinwort Benson, BNP Paribas and SG ? these were subsequently joined by Canada's EDC as an international arranger. All five banks underwrote the debt on a pro rata basis.

Arrangers of the $187 million local debt tranches were National Bank of Egypt, Commercial International Bank and MI Bank. Egyptian lenders provided de facto political risk comfort for international lenders.

**Taxing BOOTs**
The Sidi Krir deal was a first. But despite its success, the project revealed the difficulties faced by arrangers in trying to place Egyptian assets into the international markets in a tax efficient way. In fact, arrangers struggled for months to close the books without subjecting the sponsors to paying the full level of withholding tax ? some 32% of the interest payable on the debt.

The tax eases down to 15% if the bank is in a country with a double taxation treaty with Egypt. It is not charged for Swiss banks, or for multilateral institutions. But attempting to place a deal in these jurisdictions, it is argued, certainly serves to increase the complexity of syndication. Or at least it did with Sidi Krir.

BOOT financing in Egypt is becoming ever more common as the government moves to peel back state spending, while meeting the burgeoning demand for utilities and infrastructure development.

The schemes offer the advantage of private sector financing and efficiency without the formal loss of state control. But with an abundance of BOOT and BOT projects, including power plants, gas and water distribution, roads, airports, ports and tunnels, planned by the government over the next five years, securing financing is critical.

The question is whether, given local liquidity constraints, and the consequent need to tap international markets, the cost of foreign lending, after withholding tax concerns, will prove prohibitively high.

But the extent of the withholding tax problem is easily overplayed. It should not be. If it is a problem at all, solutions are rife.

For a start, given the government's alleged commitment to seeing through the bulk of projects, particularly in light of economic necessity, the effort to reduce the cost of foreign borrowing is, according to the government, emphatically underway. ?We are looking very closely at a separate BOOT law covering security and tax issues and generally tightening up on areas affecting the bankability of projects,? assures one senior adviser.

Minister of National Economy Youssef Boutrous Gahli has reportedly indicated the government's intention to review the tax and its efficacy, with a view to possibly phasing it out, or at least setting up a more favorable tax regime, and hence investment climate.

The development of other regional tax treaties is one possible course of action. Additionally, although not a general solution, many international banks have bought existing banks in the country, thus skirting the withholding tax issue altogether. A number of other international banks are also closely looking at acquiring local banks.

Bridget McKinney, partner at Denton Wilde Sapte's Cairo office, explains the tax thus: ?its really just an issue of cost. And the major international companies looking to develop projects in Egypt will simply build in that cost if necessary.?

Adds another local lawyer, ?there are solutions to these problems with the proper kind of advice. Its possible to structure a transaction to get rid of that kind of burdean, though admittedly it would be an easier environment to operate in without the tax.?

But, urges McKinney, in line with government protestations, ?the government is aware it's a disincentive. And the whole tax practice is being reviewed within the larger fiscal context, including a possible thorough reworking of customs.?

Ultimately, says Thomason, ?this sort of challenge was inevitable for the first BOOT. It was a new process for everyone. It has been very educational for everyone, including the government, and we're now well on our way to streamlining the process.?

**Suez and Port Said**
In fact, the process has been appreciably amended with the second major private project, Electricite de France's (EdF) $695 million scheme to set up two power stations, in Suez and East Port Said, to each supply 680MW, on a BOOT basis.

Syndication of $305 million in debt was launched in April by lead arrangers Societe Generale, Barclays Capital and Credit Lyonnais. A further 15 banks joined the syndication team. The two projects are being financed through one package which reached financial close on April 3, 2001.

Financing splits into four tranches: a $90 million IFC A loan, a $305 million IFC B loan, a $200 million Edf backed equity bridge and a $100 million institutional tranche provided by John Hancock. A bridge loan, arranged and completed last year by Societe Generale, Barclays Capital and Credit Lyonnais, was put in place earlier to fund construction which has already begun.

The $305 million IFC B loan breaks into two portions: a $205 million 17 year loan, and a $100 million, 13 year portion. The margin on the construction phase, guaranteed by EdF, is 60bp. The operation phase sees the margin rise to 180bp, and then notching up on a four-yearly interval to 200bp, 225bp and 250bp respectively.

That deal effectively evaded the withholding tax concern by employing IFC assistance ? supranational (multilateral) institutions are so exempt. But the motivations behind using IFC umbrella was not simply down to the issue of withholding tax. IFC involvement also allowed the tenor to be stretched to 17 years.

Says SG's Guillaume De Luze, ?Of course the IFC umbrella resolves issues such as withholding tax and, to some extent, their involvement helps explain the syndication's reception. But its important not to loose sight of the importance of the project's contractual fundamentals in getting this deal sold.?

EdF won the contract for the two plants in October 1999, following an international tender in which EdF submitted the lowest price of $0.0237 /kWh for the sale of electricity. The tariff issue is particularly significant. Previously, Intergen had offered a price of $0.026/kWh for electricity sale to the EEC. In contrast, EdF's bid is exceptionally low. Says one international lawyer, ?Most responsible companies can't come in below $0.029/kWh, but EdF is effectively the French government, so they reap those added benefits, and they don't have to work under the same commercial pressure as purely private developers do.?

The question is what effect the EdF tariff will have on future bids. One expert contends that ?it was priced so low that it'll be impossible for others to get in. EdF is setting itself up for market domination.? Whether or not this will actually happen remains to be seen. But as long as the Egyptian government remains committed to cultivating a competitive and fairly regulated power environment, it will have to face such concerns head on with forthcoming bids.

EdF's bid, however, was allegedly subject to some confusion.

According to another private power developer, not yet in the Egyptian market, ?EdF's price was a mistake ? they didn't get their EPC price right. So even though they submitted a lower overall tariff, that had a significant effect on their IRR.?

As for talk of EdF's future maneuvers in the Egyptian market, the developer asks, ?how will EdF, as a state subsidized entity, be able to compete in markets with WTO regulation. In my view that's simply anti-trade, illegal.? He adds, ?But if EdF did corner the Egyptian market, that would have serious repercussions for Egypt ? essentially it would be trading one government company for another.?

Notwithstanding these questions, bids are due to be invited later this year for a 1,500MW combined cycle power station to be built on a BOOT basis in Nubareya, in the Delta. Both EdF and Intergen are among seven prequalified bidders. Nubareya's RFP is expected to be out next September 2001. Delays in the announcement of the revised BOOT schedule reflect the time taken to restructure the EEA, rather than a lack of commitment to the plan. ?We were waiting for the next BOOT to come out for the last 18 months,? says Intergen.

Another project, a 750MW extension to the existing Cairo North power station, is expected to invite bids over the next few months. The EIB is currently studying a request for a $67.5 million loan for the project. The project has also been pledged $90 million by the Kuwait based Arab Fund for Social Development and $41 million by Jeddah based Islamic Development bank. Developers claimed that the site was not ideal for private development. Accordingly, it lost it BOOT status to Nubareya and funding will be carried out conventionally.

Also on this year's power agenda is the 150MW solar/gas power project at Kuraimat. The World Bank has pledged $50 million for the estimated $200 million project, bids for which have yet to be invited.

Future private power developments, including ownership of distribution companies, are set to be announced when privatization plans have been formalized. The EEC plans additional generating capacity of about 11,000MW up to 2012, of which at least 6,000MW will be developed through BOOTs. This calls for some $8 billion in investment for future projects. Developing the right framework for financing has never been more urgent.

**Local currency**

A pressing concern faced by banks financing projects in Egypt is exchange rate risk. Both EdF and Intergen have signed up for deals whereby the power purchase price is denominated in dollars ? a boon when the local currency depreciates against the dollar. But then the question of offtake guarantees comes to the fore. The Intergen deal was clinched by a Central Bank guarantee. Of course, any private developer or lender will need not only the right kind of guarantees but the entire security package in place for trouble-free deal making.

For the next project, bidders will have to contend with the introduction of an Egyptian pound element, reflecting local currency capital investment. Also, explains Lotfy, ?since these projects require high volumes of foreign exchange currency, they'll need to hedge foreign exchange rate and for them to be profitable.?

?The problem with some of these deals will be when the client wants everything denominated in Egyptian pounds, while the bulk of the costs are in hard currency,? says one banker. ?There is a clear foreign exchange risk, and they'll have to learn how to hedge it.?

?Sidi Krir shows that it can be done but there were difficulties in putting the proper security package together,? explains a Cairo-based international lawyer. ?There are limits to the types of security that are available.? More specifically, he is referring to difficulties of enforcement given, as he puts it, ?an overloaded court system.? He adds, ?a mortgage law would have helped.?

Ultimately, says McKinney, ?lenders aren't looking to close down shop. On the contrary, they're looking to secure step in rights, for example, or to access receivables. In short, they're looking to keep the projects going.?

**Applying the BOOT template**

The build-own-operate-transfer and build-operate-transfer models for private development are gaining increasing popularity within the Egyptian government since their successful application to the power sector. And with the current liquidity shortage, the interest in private sector financing models is greater than ever. Now, it is to other infrastructure and utility sectors that private attention is now turning.

But despite all this bubbly BOOT/BOT banter, skeptics remain.

?You have to realize,? stresses one local banker, ?that ?BOT' is not a magic word that can solve everything.? The implication is that the government set about applying its ready-made templates between sectors without the proper feasibility studies. Says a local lawyer, ?the water documents were initially taken directly from the power template ? but you can't do that. Its very difficult to assess risk properly without developing sector-specific documents at the outset.? These cautionary words underscore the need to cultivate the proper climate for private sector financing, before hasty enthusiasm.

But significant progress is being made ? if the government's apparent zeal for private sector efficiencies suggests anything.

**Water**

In fact, the Ministry of Utilities, responsible for water and wastewater schemes, is setting about vociferously affirming such developments. Says an official at the Ministry of Utilities, ?we've already established a new central department specifically for private sector projects and we're now, by ministerial decree, about to issue a law for private water concessions within the next two months.?

The Law is currently in the last stages of legal review. Its passage should inspire greater interest in the 19 projects currently on the Ministry's list for private development. ?We're currently trying to secure money for prefeasibility studies,? says the official. ?It's essential, for all ministries, that we have strong technical assistance, so we can come up with bankable documentation,? he adds.

The Canadian company SNC Lavalin has been awarded a contract for the development of the Suez Industrial Zone (East Port Said) water facilities ? two water treatment plants and the extension of a fresh water pipeline from the Ismailia tributary to El Ein El Sukhna ? under a BOT contract, with a price-tag of $120 million. The company will likely provide 25% to 30% in equity with the balance to be sourced through a mixture of commercial bank debt and ECA financing, possibly from the EDC. The concession period will run for 33 years. Denton Wilde Sapte is advising on the scheme.

The project aims to create a system with a capacity of 400,000 cm/d. The average price over the concession period will be $0.37/cm for 70,000-100,000cm/d. Nearest rival on that bid was Azurix with a quote of $0.58/cm. SNC Lavalin leads the team also including Egypt Kuwait Holding Company, controlled by Kuwait's Kharafi group, and the local International Group for Investments (IDI).

A BOOT approach is also being considered for upgrades to the Helwan and Abu Rawash wastewater plants. The latter is to be expanded from 400,0000 cm/d to 1.2 million cm/d. At the former, capacity will be increased from 350,000cm/d to

550,000cm/d. EIB funding had initially been sought for the scheme, but then rejected by the government for fears of increased costs to consumers.

**Transport**

President Mubarak recently ordered the fast track expansion of Cairo International Airport, including the construction of a third terminal. The proposed $300 million project is being tendered on a build-operate-transfer (BOT) basis. Contractors are currently gearing up to bid on the long delayed (plans for the third terminal have been under study since 1989) project. Netherlands Airport Consultants (Naco), the group which etched the original designs for the new terminal a decade ago, is advising the government on the project. The president's order gives the project new life and, according to some, effectively sets it on a fast-track (to whatever extent the term is applicable).

But, before Cairo Terminal 3, the next transport scheme to submit to the BOT format will be the Sharm el-Sheikh airport, which involves building a new international terminal next to the existing one which, given a surge in tourism (and being Egypt's most popular ? and best developed ? resort), can no longer support current volumes. The tender for the $200 million project has been awarded to prequalified bidder ABB. Although there had been some lender difficulties with contract documents, several initial offers of interest for offshore financing have apparently already been submitted. And given the government's recent decision to allow direct scheduled flights to the resort (as opposed to previously only chartered flights), the scheme is likely to rank high on the bankability scale, assuming contractual issues are properly rationalized.

The private sector's involvement is also being sought anxiously in several other transport projects. Notice, for example, the Alexandria Metro project. At the end of last year, Canada's AXOR was appointed to determine the feasibility of applying the BOT approach to the project. AXOR may even consider executing the $250 million project, if its assessment is positive. Other hopeful candidates for private sector realization include the Cairo metro expansion.

**Liquid Expextations**

Egypt is poised to become a key natural gas exporter to markets in the Mediterranean, and beyond. With three agreements for LNG projects, and a fourth on its way, the country is moving swiftly to transform its industrial landscape to natural gas. And the momentum is as encouraging for the economy as a whole, which needs to boost exports if it is to shore up its progress towards a sustainable recovery. If it works, the gas sector should be generating substantial foreign exchange earnings over the next few years.

On the way are several gas project finance deals that offer substantial business to foreign banks familiar with doing business in Egypt. BG, Edison, BP Amoco, Eni, Union Fenosa and the Royal Dutch/Shell Group are all working on proposals which all demand sizeable input from international banks.

The first to sign a fully-fledged LNG export deal was Spanish utility Union Fenosa, in the mid-March deal which boasted strong government support from both sides of the Mediterranean. The deal, signed with the Egyptian General Petroleum Corporation (EGPC), calls for EGPC to sell the LNG venture up to 500 million cu.ft/d over 25 years, or 4,000 cu.m/year of LNG.

Union Fenosa is apparently close to selecting a financial adviser on its scheme to export gas to Spain. Barclays Capital, Citibank, Goldman Sachs and SG are said to have been shortlisted for the advisory mandate. At the same time, industry rumors suggest the Spanish utility may also be looking to join forces with one of the other established international LNG experts.

BP/Eni has also recently agreed to commercial terms for its LNG export proposals, signing an agreement with EGPC to build a $2.5 billion LNG plant at the port of Damietta. The project invovles the construction of two LNG trains of 4,000 million cu.m/y. The gas feedstock will be supplied by EGPR, and the LNG will be purchased by the respective trading arms of BP and Eni. First delivereis are scheduled for 2004.

BP and Eni already share several gas fields off the Nile Delta coast. In fact, the two are close to completing the development of several offshore fields which will produce a total of 1.2 billion cu.ft/d. The consortium, together with EGPC, will set up a project company to design, build and operate the scheme.

BG Group, together with Edison International, agreed with EGPC in April to develop a $900 million LNG plant at Idku, 50km east of Alexandria on the Mediterranean coast. The exact share of the costs between BG, Edison and EGPC is as yet undisclosed, although it is understood that EGPC will likely take a 20% share, with BG and Edison carving up the remainder equally.

Gas will be sourced from uncontracted reserves in the group's existing West Delta Deep Marine Concession (WDDM), to be developed at a cost of $600 million.

More specifically, the project aims to exploit the reserves of the WDDM through the Simian, Sapphire, Sienna and Serpent fields. The concession flaunts the largest gas finds ever made in Egypt.

BG and Edison have proven recoverable reserves of over 285 billion cu.m. in Egypt, almost 60% of which are as yet uncontracted.

The consortium is apparently in advanced discussions with several customers in Spanish, Italian and US gas markets. In fact, prospects for Egyptian gas exports to the US have bolted closer to reality following BG's announcement of a long term 22 year agreement to supply LNG to the Lake Charles import terminal, operated by CMS Energy, in Louisiana. Options for supplying Lake Charles include BG/Edison's Idku LNG plant.

Shell is also etching its own gas venture plans. The company is proposing a $1.8 billion project to combine an LNG train with a gas-to-liquids plant. The company is already one of Egypt's leading gas producers, with some 550 million cu.ft/d pumped from the Western Desert. The proposed project would process gas from the North East Mediterranean Deepwater block (Nemed), where the first two wells were recently drilled. The results of this exploration drilling are as yet unclear, though several sources, including the Egyptian government, remain upbeat about prospects of vast reserves.

The issue of target market is crucial for all the LNG projects. But equally important, given that three active LNG export projects are now under way, is whether there will be room for more such schemes. Egyptian Oil Minister Sameh Fahmy put the country's proven reserves at 51 trillion cu.ft, with another 69 trillion cu.ft. of probable reserves. This should mean enough gas to allow export of a third of the reserves.

But reserve size aside, the progress of the first few deals will likely determine the feasibility of future schemes yet to surface. If the government moves swiftly with an aggressive gas export program, as it seems determined to do, it may once again settle into a net exporter position.