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How can Egypt benefit from natural gas crunch in Europe?



Natural gas prices in Europe rose to record levels with the onset of the winter season. The high demand for gas in Europe and Asian countries has put pressure on Russian supplies that provide Europe with most of the natural gas through a pipeline network that extends through most European countries.

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Our Views

- The past few months have witnessed a global energy crisis due to global economic recovery from the COVID-19 pandemic, with aggregate demand returning to its pre-closure levels. The crisis began with sudden rises in prices of energy sources as a result of contraction of natural gas, oil and coal stocks, relative to the increasing demand by most economic activities for goods and services alike, causing inflationary waves that reached several economies around the world.
- Given that those three energy sources represent about 85% of total global energy consumption, and are used in generating more than 60% of global electricity production; ¹ factories and homes in countries such as United Kingdom, China, India and some European countries have suffered from power outages for long periods as a result of lack of natural gas supplies. Some of these countries even witnessed protests due to high household electricity bills, which put great pressure on these economies, especially with climatic changes and the onset of winter season, which exacerbated the crisis.
- Global natural gas markets and stock exchanges, especially futures contracts in the United States and Europe, witnessed unprecedented record highs. This follows their lowest levels during the COVID-19 crisis, which caused an

¹ <https://gate.ahram.org.eg/daily/News>

accumulation of oil and natural gas stockpiles due to stagnant demand, and almost complete lockdown at that time. By the end of November 2021, US natural gas futures prices stabilized at their highest level since December 2008, and more than double their level at the beginning of 2021, reaching \$5.4 per million British thermal units (MMBtu). Meanwhile, the crisis in Europe worsened, with the jump in futures prices, reaching more than five times compared to last year (93 euros / megawatt-hour (MWh) at the end of November 2021).²

- Higher prices of natural gas and shortage in its global stocks, in turn, led to a shortage in fertilizers, the production of which depends mainly on natural gas, and constitutes a major input in food commodities production. Hence, the latter's prices rose to their highest level, according to the Food and Agriculture Organization (FAO) Food Price Index in a decade, with an average of 133 points last October, even exceeding levels during the global food crisis in 2008 (117.5) points.³
- Despite the environmental quandary the world faces on using carbon-intensive energy sources such as coal, countries that are dependent on coal production and consumption, such as China and India, are currently pushing production capacities and imports to meet domestic demand pressure, and fulfill shortages of other sources.⁴

² Dutch TTF

"Trading Economics" <https://tradingeconomics.com/commodity/eu-natural-gas>

³ <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

⁴ China's daily coal production rose by more than one million tons during October 2021 to 11.67 million tons, and coal stocks in Indian power plants rose to 11.2 million tons in early November 2021 compared to about 7.2 million tons in October 2021. <https://www.acharqbusiness.com/article/28511>

As for Egypt, due to availability of gas supplies and absence of a demand crisis thanks to its dry climate and lack of dependence on heating in contrast to the above countries, there is no direct negative impact for the following reasons:

- Production-sharing agreements, according to which natural gas is extracted, are long-term agreements that depend on bargaining power with foreign partners, and may allow countries to obtain a larger share of production throughout the contract term in exchange for investment in development, exploration and extraction, especially that natural gas production processes require costly research, equipment, and infrastructure.
- Export contracts are mostly long-term, and therefore include fixed prices for long periods of time, making them difficult to adapt to global events and supply and demand changes, which resulted in insignificant impact on Egypt.
- Egypt's access to regional partnership agreements grants it a global position as a major player in gas liquefaction, in addition to its production and exportation, turning it into a regional hub in dealing with all stages of the natural gas value chain. Examples of these agreements include the Arab Gas Pipeline, Gas Exploration Agreements in the Western and Eastern Mediterranean (the seven new agreements signed, in early 2021), as well as the East Mediterranean Gas Forum to be based in Cairo as the organization's international headquarters, representing a regional hub for investing in gas discovery among member states in the eastern Mediterranean.

- Egypt is also gradually improving its bargaining power, whether in production or exportation, increasing its contractual share with foreign partners.

As for gas pricing for local use; although it is theoretically supposed to be linked to international prices, in practice it tends to remain stable or rise above the global rates prevailing in other countries that seek to encourage production and industry. This makes Egypt lose its competitiveness, a key issue the business community requests to be revisited in Egypt.⁵

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⁵ For example, the casting industry, which is one of the most promising energy-intensive industries in Egypt that would enjoy foreign investment opportunities if given the necessary capabilities such as energy sources and production inputs, (an unpublished study by the Egyptian Center for Economic Studies on casting industry opportunities for Egypt).