

Oil and gas reserves have investment potential



With Egypt planning to increase its total production of oil, gas and petrochemicals by investing \$25 billion in new technologies and infrastructure, Canadian companies may want to do some exploring of investment opportunities.

Joseph Tadros, a trade commissioner with the Canadian Embassy in Cairo, says the most potential for Canadian companies lies in exploration, enhanced recovery, oil shale and capacity-building, as well as technology transfer.

"Canada enjoys an excellent reputation in the market with an increasing number of Canadian companies active in the sector," says Tadros. "Collaboration in the oil and gas sector is indeed flourishing with Canadian investments on the rise, reaching some \$400 million per year."

In the petrochemical field, two Canadian companies are already making inroads. They have partnered with Egypt's government to implement mega projects estimated at \$2.5 billion. When these projects come on stream, Canada will become one of the top five sources of foreign direct investment in Egypt. Canada is also a partner in capacity-building and ensuring high-quality skilled manpower meet local and regional needs.

Black gold

Tadros says the oil sector remains one of Egypt's main sources of hard currency and continues to contribute substantially to the Egyptian economy. In 2005, Egypt's trade was boosted by \$4.8 billion from oil and gas exports, which amounted to 12% of the country's gross domestic product. The industry also accounted for some \$3 billion in foreign direct investment.

Industry observers conservatively estimate that Egypt has six billion barrels of proven oil reserves and its crude oil production is set at 690,000 barrels a day—modest numbers for the region.

"Egypt is looking to maximize its current reserves through the implementation of new technologies that

can tap new sources of crude. It is also encouraging foreign partners to undertake deep water offshore explorations and exploit untapped areas. Until now, however, most discoveries yield natural gas and not oil," says Tadros.

Natural gas

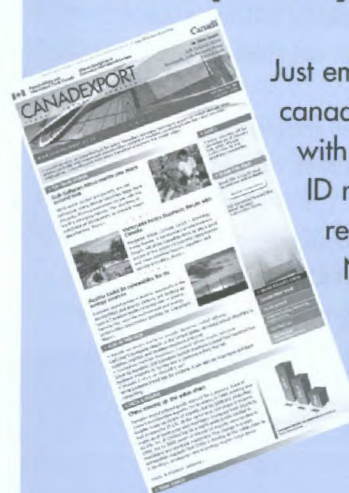
Natural gas is likely to be the main driver of future economic growth due to major recent discoveries. Egypt is now the seventh-largest liquefied natural gas exporter in the world. It has also become one of the largest domestic gas markets in Africa.

Natural gas production averages 4 billion feet per day and proven reserves stand at 68 trillion cubic feet. Tadros says Egypt's government wants to increase reserves to 100 trillion by 2015.

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Food sector opportunities aplenty

Although Egypt's famously fertile land enables farmers to produce some of the world's highest yields, about two-thirds of all food consumed in Egypt is imported, making the country one of the world's largest food importers. Given that Canadian agricultural exports to Egypt only totalled \$38 million last year, there is a lot of room for growth.

But Canadian prospects look good given the economic reforms Egypt has undertaken, especially since Canadian wheat sales to Egypt in 2006 will surpass \$100 million—a record total for one year.

"The appointment of two successive economically liberal cabinets is good news for Canada," says Magdy Ghazal, a trade commissioner with the Canadian Embassy in Cairo.

"The latest cabinet has reasserted Egypt's commitment to developing a market-driven economy. The improved outlook will increase the number of Egyptians able to afford imported food, and in time reduce the proportion of Egyptians reliant on state provisions."

Ghazal says demand has been supported by a sharp reduction in tariffs on both capital and consumer goods. The average tariff fell to 9.1% from 14.6%, and particularly notable reductions were made to tariffs on meat (from 80% to 22%) and beans (from 33% to 5%).

However, Canadian food exporters should keep in mind that some food products still face impediments, including high import tariffs—including 300% on most wine and alcoholic beverages—and stringent entry control requirements. But Ghazal says the opportunities outweigh the obstacles.

Ripe for the picking

After all, agriculture is one of Egypt's most important sectors, accounting for 17% of the country's gross domestic product. Moreover, some

40% of all Egyptian imports were agricultural products totalling some \$7.1 billion. So how can Canadian exporters take advantage of this potential?

"The economic and social changes, not to mention the large tourist base, have led to an increase in demand for top-quality processed and semi-processed food products.



Parts of Egypt are fertile, but it still relies heavily on foreign food imports.

The Egyptian market is showing good prospects for products such as cheese, butter and canned foods," says the trade commissioner.

Ghazal also points out that substantial opportunities exist for Canadian exporters of bulk food products such as wheat, pulses and oil seeds. Demand is also strong for animal feed, peat moss, dairy cattle and genetic material, not to mention tobacco, dairy products, crude vegetable oil (canola) and seed potatoes.

As with any new market, exporters have to be prepared for Egypt.

"Export success in Egypt can be foiled through a lack of understanding of the marketplace so a good marketing plan is critical. The Canadian Trade Commissioner

Service, through the Canadian Embassy in Cairo, can be instrumental in helping Canadian exporters that are considering Egypt," says Ghazal.

For more information, contact Magdy Ghazal, Trade Commissioner, Canadian Embassy in Cairo, tel.: (011-202) 791-8776, fax: (011-202) 791-8865, email: magdy.ghazal@international.gc.ca, website: www.infoexport.gc.ca.

Tips to beat the competition:

- ✓ ensure prices are competitive
- ✓ undertake sufficient local promotion and advertising
- ✓ offer competitive financing terms
- ✓ adhere to Arabic labelling and packaging requirements
- ✓ take time to understand the local distribution system
- ✓ become familiar with customs and health regulations