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# Egyptian Military & Destruction of Economy – 2

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Abdel-Hafez Al-Sawi

(In **Part 1** of this documentary file, the writer addressed: the decline in exports, the expansion of corruption, the price hikes, the new Suez Canal shunt, and the corruption of Egypt's military from Mubarak to Sisi)

### VI- Aggravation of the Energy Crisis in Egypt

Reuters News Agency published on Wednesday, December 23<sup>rd</sup>, 2015, reports stating that the energy crisis in Egypt is continuing indefinitely, which means a dramatic decline in economic activity and increasing recession, unemployment and poverty. Reuters' reports also stated that Egypt "is facing difficulty in paying for imports of oil and natural gas under the hard currency crisis", adding that the Egyptian government cancelled purchases and asked the suppliers to extend the payment deadlines.

There is no perception at all to resolve the fuel and energy crisis, which hit Egypt, in accordance with a scientific method. After the January Revolution, the power outages crisis increased. Voices were raised then that it was due to increase of subsidies granted to the energy sector in the State Public Budget, despite the fact that the Egyptian citizen did not feel or suffer from this crisis during the rule of the ousted President Mubarak.

Deep state organs of the intelligence and the police have played a major role in the burnout of all the capabilities of the state's interests, particularly those associated with the services provided to citizens so that the citizen would feel a decline in services during the rule of President Mohamed Morsi, who came to power after the January 25<sup>th</sup> Revolution.



Military Coup Commander Abdel-Fattah El-Sisi announced to the Egyptian people that the solution of the power crisis needed \$ 12 billion. He held the largest deal ever with Siemens Company via “direct order” (not through a tender) for the construction and renovation of power plants. Though these deals were tinged with corruption, Sisi issued a decree imposing a gag on Dabaa agreement for setting up a nuclear power plant to generate electricity.

With all this uncertainty, it seems more ambiguous to reach solutions or suggestions for resolving the crisis while there are many questions that are looking for answers:

- Does the problem of the energy sector lie in the lack of appropriate funding for the establishment of power stations?
- Does the crisis of the energy sector lie in the inability to repay the debt of the foreign partner?
- Is the root of the problem connected to the subsidy granted to the energy sector?
- Do we have insufficient supplies of power plants?
- What is the available supply of different energy sources? And what is the required energy?
- How big is the gap or shortfall in energy? And what is the most appropriate way to fill this gap?
- Can the launching of “demand and supply” forces (for determining energy prices) restore balance to the market?
- Do we need a new pricing policy for various energy sources?
- Is our use of renewable energy sources sufficient to fill the gap of demand on energy?
- Should Egypt enter the era of nuclear energy for power generation?
- Is the nuclear or renewable energy sufficient to restore balance to the market again?



The military coup is keen on not giving answers to these questions that really need in-depth studies. However, the coup supports the theory of problem-export to the society as a major goal for State Administration in Egypt.

Egypt suffers from the energy crisis as a result of different causes, some of which are linked to the growing demand for energy due to over-population, the establishment of new residential areas and increasing industrial projects without due expansion of energy production.

Some of the most important energy problems that Egypt is now facing are: the import of natural gas, debts of the foreign companies, operating in Egypt, decline in the natural gas production in Egypt and decline in the investments of foreign companies after the increase of the Egyptian debt to the international oil companies to \$ 6 billion.

The Egyptian General Petroleum Corporation sought to repay those debts by borrowing from banks to pay off the arrears to foreign companies. A group of banks had lent the Corporation \$ 3 billion in December, 2014 and most recently in April.

The head of the Egyptian General Petroleum Corporation had requested the postponement of dollar-denominated debt repayment, since all dollar-denominated revenues were directed to pay for the imports of natural gas consumed in power plants. But the central question which needs an in-depth study is: How has the petroleum sector become in debt? Indebtedness is no longer a payable debt to the foreign companies only, but it is also a US dollar debt to the Egyptian banks, borrowed by the Ministry of Petroleum to provide petroleum products for the domestic market.

It is important to note here that, in the era of President Mohamed Morsi, the Egyptian General Petroleum Corporation was able to pay \$ 1.2 billion to foreign companies in July, 2012. In March, 2013, the government paid one billion dollars of due debt to foreign companies, and another one billion dollars was repaid before June, 2013. However, in the era of the elected president who came directly after the January 25<sup>th</sup>

Revolution, an amount of \$ 3.2 billion, which represents one third of due debts was repaid, though President Morsi did not receive free oil from abroad or a \$ 30 billion of aid from Gulf countries, as happened with Sisi.

### Energy Production in Egypt:

Egypt possesses a number of 51 power plants that produce 25000 megawatts. However, demand on electricity increased during the three years that followed the January 25<sup>th</sup> Revolution, to reach 30000 megawatts, which required a daily easing of burden by 5000 megawatt. However, we cannot run more than only 22000 megawatts. The government also failed to provide maintenance for the power plants, which led to a permanent and chronic electricity shortage.

The proportion of the High Dam contribution in power generation has decreased to 6.3% of the total energy production. The production of energy from renewable sources represents 10.7 % through the hydro power, the wind power and the solar energy. However, Egypt loses about 13.7% of the total energy. The power plants depend on fuel oil and natural gas inputs for production.

Egypt has nine oil refineries but the crude oil production is decreasing, which leads to a decline in the income of the foreign companies. As a result of the debt problem, the oil companies, operating in Egypt were forced to export its share of crude oil to a third party rather than selling it to the Egyptian General Petroleum Corporation. This resulted in depriving our oil refineries of this crude oil, in addition to increasing the oil imports from abroad.

Moreover, the increased demand, resulting from the ongoing oil crisis has exacerbated the problem; the Egyptian General Petroleum Corporation was forced to redirect the oil resources for local consumption, after it was ready for export to the global market.

## Size of Consumption:

There is demand on energy in both the household consumption and the industry section. The domestic consumption of electricity has generally increased. However, it increased by 95.4% from 2000 to 2010. There must be a diversification of energy sources in Egypt. We can get energy from renewable energy sources, although they are only sufficient for lighting the streets and roads, which does not exceed 7% of the total energy needs in Egypt.

Egypt does not suffer from the problem of production as much as it suffers from a lack of funding.

However, the question that presents itself strongly is: Why did the petroleum sector turn to a loser sector rather than a profitable one? In other words; why did the government of the ousted Mubarak and the Military Coup fail to repay the foreign debt? This brief report is not likely to afford talking about corruption in oil agreements signed with foreign companies that made Egypt's share of its own oil equal to ZERO. However, the military coup is apparently taking Egypt, on a larger scale, to a big ZERO in all fields.

## VII- Compromising Egypt's Wealth of Natural Gas

The monthly informatics newsletter of the Central Agency for Public Mobilization and Statistics for November, 2015, indicated that Egypt's production of natural gas in September, 2014 reached about 3011 thousand tons but decreased in September, 2015 to 2686 thousand tons. This means that the decline value amounted to 325 thousand tons during the period of comparison at a rate of 10.7%.

As for the situation of Egypt's consumption of natural gas, the bulletin also indicated that it reached about 2962 thousand tons in September, 2014, but it increased to 3071

thousand tons in September, 2015. This means that the consumption increased by about 109 thousand tons, an increase of up to 3.6%.

The initial reading in the difference between the quantities of production and consumption of the natural gas in Egypt may not suggest a big problem. However, the fact that shows how big the problem in Egypt is, is that these produced quantities of natural gas actually face two challenges which are:

- 1- The foreign partner's share which amounts to 40%.
- 2- Egypt's previous commitments to long-term export contracts.

These two factors prevented Egypt from enjoying its share of gas production in spite of its low volume, and compelled it to import its needs of natural gas.

### Court Ruling of Compensation in favor of Israel:

After issuance of the arbitration judgment of a compensation of \$1.7 billion in favour of Israel for Egypt's halting of natural gas exports to Israel in February, 2012 , we find it appropriate to discuss this issue from different sides, particularly that there is an Egyptian narration which shows the arbitral ruling as nothing or non-existing.

The Egyptian narration says the Court of Arbitration in Geneva is not associated with arbitration in the contract dispute. According to the provisions of the contract, the Commercial Arbitration Centre in Cairo is the court that is associated with the contract dispute. Moreover, the decision of suspending gas exports to Israel, came in a purely commercial setting, away from any political fallout, and was released by Egypt during the first transitional phase when it was ruled by the junta. The reason for stopping the export of gas to Israel, according to the Egyptian government, was the failure of the Eastern Mediterranean Company on its financial obligations, which gave Egypt the right to suspend the gas exports.

Regarding the Egyptian narrative, there are fears that:

-This may be only creation of Egyptian public opinion to accept the step of importing the natural gas from Israel which will start after four years from now, at \$ 9 per million BTUs, while Egypt was exporting it to Israel at a price ranging between \$ 1.25 and \$ 2.5 per million BTUs.

-The second thing is that in case Egypt's appeal is accepted, Sisi will appear as a hero and that he was able to achieve victory over Israel.

But if the arbitration award became final and conclusive for payment of \$ 1.7 billion as compensation for Israel, the economic consequences will be disastrous to Egypt, especially in the light of the funding crisis that Egypt is now suffering from. Payment of the compensation means that the general budget would bear LE 15 billion, about one third of the allocations for public spending on the health sector.

### The Israeli Deal:

November 2015 witnessed the signing a memo of understanding between the Egyptian "Dolfnius" private company and the Israeli owners of "Lothian" gas field, controlled by Israel off the shores of occupied Palestine, which indicates that the energy crisis reflected keenness of the Egyptian government to normalize relations with Israel.

Egypt has been exporting the natural gas to Israel since the mid-nineties; but unfortunately, it has now become a future importer of gas (from Israel) in 2019-2020 by 4 billion of cubic gas annually for a period from 10 to 15 years.

According to reports circulated by the media, the Egyptian government is not a party in this deal, and they do mind importing gas from any country in the world including Israel. However, the experience of the nineties reflects the Egyptian skill in circumventing the public opinion and the parliament.



The Egyptian Constitution stipulates exposure of international conventions to the parliament for approval before entering into force. To avoid this problem, the government has referred the issue of importing the natural gas to a private sector company

Despite the involvement of the Egyptian government in the export of the Egyptian natural gas to the Israeli entity in the nineties via the Eastern Mediterranean Company, owned by the former Intelligence agent Hussein Salem, these contracts remained far from the Egyptian parliament, which did not exercise its right of control concerning them. However, the opposition had insisted, before the January 25<sup>th</sup> Revolution, on preventing the natural gas convention for national and economic considerations but to no avail.

There is another legal problem that would be an obstacle to Egypt's deal for the import of gas from Israel concerning the location of natural gas fields in the Mediterranean Sea. In this regard, an agreement was signed between Egypt, Cyprus and the Zionist entity, demarcating Egypt's sea borders outside the natural gas field area.

However, this agreement remains without activation until it is ratified by the Egyptian parliament. In the light of the nature of the parliament which has been lately elected, this agreement can be passed, although it contains a great deal of security and economic losses for Egypt. Moreover, passing the signing of the agreement during the period of Interim President Adly Mansour, was only a kind of international marketing for the military coup in Egypt, following the July 3<sup>rd</sup> Coup, 2015.

As Egypt did in the nineties of exporting Businessman Hussein Salem through the Eastern Mediterranean Company, it is now doing the same act by exporting the Egyptian "Dolftios" holding company, owned by a group of businessmen, led by Alaa Arafa, a textile businessman and one of the beneficiaries of the QIZ Agreement (with Israel) which consolidates normalization of relations with Israel.

It is worth mentioning that Alaa Arafa is the son of the late businessman Ahmed Arafa, a former General in the Egyptian Armed Forces, who was also one of the confidants of the ousted Hosni Mubarak. This shows how the coup authority is keen on finding businessmen who work within the framework of its plans.

### Future Crisis:

The Egyptian Government is insisting on the absence of an effective national strategy in the field of energy. The issue of energy is dealt with within a time frame, such as providing funding for the General Petroleum Corporation to pay off its debt to foreign companies to fall from about \$ 6 billion to \$ 2.7 by the end of 2015 according to a government programme. However, payment of this debt came through conversion of debt maturities of foreign companies to the maturities of local Egyptian banks.

The government runs its imports through credit facilities from its Gulf allies, or through the expansion of the external debt. However, the government has forgotten its announcement, last August, of the Italian company's discovery of huge gas wells off the Egyptian Mediterranean shores.

Egypt's consumption of energy is growing by 3% per annum. In the light of the decline in energy production and the increase in its consumption, these estimates are expected to increase, under a funding crisis which is also expected to continue at least in the medium term. According to the natural gas deal between Egypt and Israel, which is expected to enter into force after four years, the private sector will be allowed to work in the import of the natural gas by itself or through marketing it to others. As a result, the natural gas production cost in Egypt will significantly increase, thus adding a new obstacle to industry and investment. The presence of the government in the position of energy importer would reduce the cost of production through cancelling the profit margin added by the private sector.

## VIII- Failure of the Military Policies to Save the Egyptian Pound

When Mubarak left power in February, 2011, the dollar exchange rate reached 5.88 Egyptian pounds, which means a depreciation of the Egyptian pound in the Mubarak era by about 508 piastres, a decline of 635%. After the January 25<sup>th</sup>, 2011 Revolution, the military junta came and began depletion of foreign currency reserves, estimated then at \$ 35 billion. However, with the end of the rule of the junta, the hard currency reserves fell to \$ 14.4 billion, after draining \$ 20.6 billion.

Former Central Bank Governor Farouk El-Okdah caused harm to the country and the citizen through eagerness to stabilize the Egyptian pound exchange rate without any considerations to the supply and demand forces. The Egyptian pound only decreased by less than 3 % of its real value, equivalent to 18 piasters to decrease from LE 5.88 to 6.06 against the US dollar, thus opening the door widely for the thieves and the corrupt to directly or indirectly transfer their money abroad. This led to a drain on the foreign currency reserves at the Central Bank due to the implicit subsidies obtained by those spoilers through the difference between the real exchange rate and the rate declared by the Central Bank.

When President Mohamed Morsi came as the first elected civilian president and took office on June 30, 2012, the dollar exchange rate was 6.06. With the declaration of the military coup on July, 2013, the dollar exchange rate was 7.03, with a decline of 97 piastres to the Egyptian pound. This era witnessed a clear conspiracy by the Military and the deep state and those who were used to achieve their cheap goals to prevent achievement of President Morsi's platform and his developmental renaissance programme. However, Morsi's era did not witness part of the generous Gulf grants, which found its way to the Military Coup afterwards. Yet, decline in the Egyptian pound exchange rate did not exceed 16 %.

With the coming of the reign of the military coup (to rule the country again) through the coup interim President Adly Mansour from July 3<sup>rd</sup>, 2013 until June, 2014, the Egyptian pound fell by 1.8 %, a decline of 12 piastres where the dollar exchange rate reached LE 7.15.

Then, the head of the military coup Abdel-Fattah El-Sisi came to take over, governing the country. Since then, the Egyptian pound has been witnessing a continuous decline despite the Gulf support which exceeded \$ 50 billion. However, these funds did not really go transparently to the dollar resources of the country. This era has been dominated up till now by lack of independence of the Central Bank, in addition to the predominance of the military decisions to prevent the collapse of the Egyptian pound. When the dollar exchange rate reached LE 7.59 at the end of January, 2015, the Central Bank put a limit for the dollar banking deposits of \$ 10 thousand a day and \$ 50 thousand a month.

These restrictions have curbed to some extent the increase of the Egyptian pound price against the US dollar. The Central Bank reduced the value of the Egyptian pound by ten piasters in its dollar tender on Thursday, July 2<sup>nd</sup>, 2015, and then on Sunday, July 5<sup>th</sup>, 2015 with ten other piasters. The dollar exchange rate jumped to LE 7.83. On October 18<sup>th</sup>, the pound value was further reduced by 10 additional piasters, causing a rise in the US dollar exchange rate to LE 7.93 at the Central Bank and LE 8.03 at banks, against LE 7.93 before that date.

The dollar exchange rate jumped to LE 8.40 in the parallel market and continued to rise until close to LE 9, which means a drop of the Egyptian pound in the official market by one Egyptian pound and a decrease of 14.2% since the beginning of the military coup. In the parallel market, the rate exceeded 20%.

After dismissal of Central Bank Governor Hisham Ramez and appointment of Tarek Amer as his successor, the Central Bank decided to increase the price of Egyptian



pound against the US dollar by 20 piastres on November, 11<sup>th</sup>, 2015. This increase raised many exclamation marks, as it was not supported by reality as well as being unjustifiable by the economic data. In fact, it is a wasting of Egypt's dollar resources. This rise was just a media bang, a psychological warfare, a type of gambling and a desperate attempt to confuse those who deal in the parallel exchange market, and prevent dollarization (people exchanging their money from Egyptian pound to dollars). The last point seemed clear in the Egyptian banks tendency to offer saving certificates in Egyptian pounds for a period of three years with a yield of 12.5% per year with the aim of preventing dollarization and pressure on the Egyptian pound.

### Treatment of Symptoms Rather Than Causes

The coup government really suffers from development "strabismus"; they leave the causes of the disease and look at its symptoms, i.e. by relying on the monetary policy alone to treat the problem of the high dollar exchange rate. The fall in the dollar resources is a natural consequence of lower: exports, tourism, Suez Canal revenues, Foreign direct investment, remittances from Egyptians working abroad; as well as the high armament bill which exceeded \$ ten billion.

Among the causes of decline in the US dollar resources is the bill of low-yield but high-cost projects, with the new Suez Canal shunt coming in the forefront, where only the cost of dredging exceeded \$ 2.2 billion. Consequently, the repayment of the Suez Canal Authority commitments to foreigners relied on syndicated loans from banks. These loans have reached \$ 1.3 billion only during the past two months, which increases the burden on the borrowing government agencies as well as the government banks which contributed in these loans.

In fact, the merchandise exports recorded its highest rise during the era of President Mohamed Morsi in the fiscal year 2012/2013, worth \$ 27 billion compared to imports

of \$ 57.7 billion. The trade balance deficit declined to \$ 30.7 billion, by \$ 4.3 billion, at a rate of 11.1% , whereas during the rule of the military junta the deficit reached \$ 34.1% with 25.1 exports against \$ 59.2 imports.

With the coming of the Military Coup, the trade balance deficit began to increase again to reach \$ 33 billion during the fiscal year 2013/2014 and about \$ 38.8 billion in 2014/2015. The deficit in the trade balance rose by about \$ 4.7 billion at a rate of 13.9%, due to decline in commodity export earnings at a rate of 15.5% to only \$ 22.1 billion.

Impairment of non-oil exports also continued during the first nine months of 2015 at a rate of 19.3%. This is a natural result of the companies' inability to import the necessary production requirements, especially that 70% of the Egyptian exports components rely on import from abroad. Some estimates refer to the escape of \$ 13 billion investments out of Egypt over the past two years at a time when investment inside Egypt is almost restricted to the petroleum sector.

If we take into account the tourism revenues since the reign of the military junta, official data show that they amounted to \$ 9.4 billion in 2011/2012 (during the rule of the military junta) and reached their highest rates during the era of President Mohamed Morsi by \$ 9.8 billion in 2012/2013. However, the tourism revenues fell again after the military coup reaching \$ 5.1 billion in 2013/2014 and \$ 7.4 billion in 2014/2015. Today, tourism is in its worst conditions ever after the fall of the Russian plane on Sinai.

The Suez Canal Authority data showed that the Suez Canal revenues reached \$ 5.2 billion in 2011/2012, then \$ 5 billion in 2012/2013 and \$ 5.4 billion in 2013/2014 and 2014/2015. However, the Suez Canal revenues have declined since the establishment of the new shunt, despite Sisi's claim that it covered its expenses:

- The Suez Canal revenues decreased by \$ 47.9 million at a rate of 9.4% during last August compared to August of the previous year. They continued to decline for the second time in September this year to reach \$ 448.8 million versus \$ 462.1 million in August by \$ 13.3 million, a decline of 3%. They also continued to fall for the third time in a row in October this year to reach \$ 449.2 million compared to \$ 482.3 million, ahead of \$ 33.1 million and a decrease of 7.4% during the same month last year, despite occurrence of a slight increase of \$ 400 thousand compared to the previous month. Remittances of the Egyptians working abroad also witnessed a decline by 8.9% during this year.

### IX- Seven Fake Projects of the Military Coup in Egypt

The Egyptian regime announced a number of giant projects in Egypt directly after the coup d'état of July 2013 which toppled the first elected civilian President Mohamed Morsi, most notably: the construction of one million housing units for the low-income citizens, the Administrative Capital, reclamation of 1.5 million acres of land, the national network of roads, the golden mining triangle, the Suez Canal Shunt and the discovery of a giant field of gas in the Mediterranean Sea. However, these seven projects turned into fake projects. This significantly prompted the exacerbation of people's living crises after the coup regime abandoned its phantom promises; and all the projects that the coup government had announced before, actually stopped.

1- The building of one million apartments was the first mega-project that the military regime first announced in May, 2014, before the presidential elections, through the Defence Minister, at that time, Abdel-Fattah El-Sisi, who revealed the agreement with the United Arab Emirates' Arab-Tec Company to build one million housing units for the low-income people within five years, with a cost of LE 280 billion (equivalent to \$ 40 billion according to the dollar exchange rate at that time). Only three months passed

when the Egyptian Housing Ministry said it received the project file instead of the Army.

Delivery of the first phase of the project was scheduled to be earlier this year, but differences escalated between the company and the government about the project funding sources, in addition to the hard financial situation of Arab-Tec, which was exposed to losses and administrative changes over the past period, hampered the implementation of the project.

The one million housing units entered a limbo before the officials announced the end of the project and its complete failure. They only performed some verbal maneuvers by declaring that the Housing Ministry will take over the project and turn it into a medium-housing project, where the unit price will exceed LE 300 thousand (about \$ 38.5 thousand). This means that the dreams of young people and low-income citizens, to obtain housing units at affordable prices, have ended, and that the housing crisis will continue to escalate. ( [Video](#): Sisi's announcement of building one million apartments)

2- The Administrative Capital is the second most prominent giant project of the military regime's chain of enterprises. The project was announced in Sharm El-Sheikh Conference in March, 2015, for building the Administrative Capital on an area of 60 kilometers on Cairo-Suez desert road, at a cost exceeding \$ 90 billion.

It was announced at that time that Emaar Company of the United Arab Emirates will take over implementation of the project, but the company denied, in subsequent statements, participation in the project. However, Emaar Board of Directors later announced the establishment of the Capital City Park Company to carry out the project. Then, the mystery continued till Sisi announced that the budget could not bear the construction of the Administrative Capital. Conflicting statements concerning the project have continued and the project was really exposed to clinical death.



3- Road Network: The third phantom project announced by Sisi, was the establishment of the National Roads Network within one year as he declared soon after taking office last year, when he then said: “I’m capable of building a network of roads to hold Egypt like this..”, pointing to the grip of his right hand, “and I’m capable of providing the necessary funding”, Sisi added. More than a year passed and the coup government has not carried any road projects. However, deterioration of the infrastructure continued, which appeared clearly during the rains that flooded Alexandria, Behira, Giza and many other governorates and led to the sinking of entire villages and the collapse of many roads and bridges.

The most prominent obstacles to the implementation of this project and other ones, was the grinding financial crisis experienced by the country. The Budget deficit reached about LE 254 billion in the last fiscal year, despite the Gulf grants and aid, received by the coup government, exceeding \$ 40 billion (about LE 310 billion).

4- Reclamation of 1.5 Million Acres: The fourth project in Sisi’s announcement a year ago was the launching of the reclamation of one million acres of land. However, he later declined, arguing about non-availability of funding. Then, he has recently announced again the launching of the target project after its expansion to 1.5 million acres in the coming days. This raised eyebrows among the irrigation experts who confirmed that Egypt actually suffers from water deficit for the cultivation of the existing spaces. Therefore, it is difficult to supply water for reclamation of this huge space. The irrigation experts pointed out that Egypt is on the verge of hard days in the light of the progress in constructing the Renaissance Dam in Ethiopia, after Sisi signed an agreement giving Ethiopia the right to complete its construction. Ethiopia has already begun the diversion of the Nile stream to the corridors of the new dam. Moreover, Ethiopia has not given Egypt any guarantees concerning Cairo’s share of water, amounting to 54 billion cubic metres.



5- The Mining Triangle: The fifth placebo project is the golden mining triangle in the Egyptian eastern desert, extending from Edfu area, south of Qena Governorate, to Marsa Alam, on the Red Sea coast in the east, to north of Safaga area, which was remarkably neglected by the government of Beblawi, the first premier after the military coup. However, the Sokkari Gold Mine has been surrounded with ambiguity, especially in the light of conflicting reports and uncertainty about the quantities produced and exported.

6- The Giant Gas Field: The Egyptian government announced last August that the Italian Oil Company, “Eni” achieved one of the greatest discoveries of natural gas over the world, in the Egyptian territorial waters of the Mediterranean Sea, speculating that this will help meet Egypt’s need of gas for decades to come. According to the company, in a press release at the time, the new disclosure includes original reserves, estimated at 30 trillion cubic feet of natural gas, which means that the reserves are equivalent to about 5.5 billion barrels of the oil equivalent, and covers an area up to 100 square kilometres. This discovery, which will be called “Sunrise”, is the largest gas discovery in Egypt as well as in the Mediterranean Sea waters, and may become one of the largest gas discoveries in the world, according to the Italian company.

According to Eni, the development process of the gaseous discovery will take about four years to contribute significantly in meeting the needs of domestic consumption of natural gas. Interestingly, while Egypt was announcing its gas discovery, the Egyptian government was negotiating with the Israeli occupation on import volumes of natural gas produced from “Tamar” field in the east of the Mediterranean, in favour of the liquefaction plant in Damietta, for a period of 15 years. In fact, this arouses questions about the truth of what was claimed to be the greatest gas discovery in the region.

7- New Suez Canal Shunt: The new Suez Canal shunt was one of the most prominent projects, adopted by the current coup regime, which announced that it will generate

more than \$ 100 billion, according to official media reports. The cost of its first phase, which amounts to LE 64 billion (\$ 8.5 billion) was collected through investment certificates to companies and citizens. According to experts, the project which had no feasibility study is ambiguous. They speculated that it will meet the same fate of the placebo Toshka Project, which was adopted by the deposed president Hosni Mubarak, who was toppled by the January 25<sup>th</sup>, 2011 Revolution. Surprisingly, there was a decline in the Suez Canal revenues in the months that followed inauguration of the new shunt last August.

### X- Egypt's Military and Ethiopia's Renaissance Dam

With the entry of the Renaissance Dam into its operation phase, this giant dam is expected to reserve about 70 billion cubic metres of the Blue Nile waters. The Blue Nile is considered the main tributary of the Nile, as it provides the Nile with about 86% of its water, equivalent of about 72 billion cubic metres.

We can imagine the size of the damage if we take into account that the amount of water that comes to Egypt and Sudan is around 84 billion cubic metres. In other words, filling the dam's reservoir with water can forbid Egypt and Sudan a whole year of the water of the Blue Nile or at the very least would lead to the consumption of two thirds of the strategic reserve of Lake Nasser. It is also expected that the lower levels of water in the Nile would affect the High Dam turbines, and thus exacerbate the energy crisis that hit the country.

There are expectations that the proportion of energy generated from the High Dam turbines decrease by less than 37% due to the decline in the Nile levels, and the flowing rate fluctuation. In addition, the fisheries, tourism and internal trade, related to the Nilotic navigation, will be also affected.

What makes things worse is that Egypt has already entered a stage of water poverty, as the Egyptian citizen's share of water is about 630 cubic metres a year, lower than the international rates estimated at 1000 cubic metres per annum. In addition, there is an urgent need to reclaim millions of acres to accommodate the explosive population growth and bridge the food gap that drains the hard currency. Egypt has been the first wheat importer for decades. Moreover, Egypt also imports meat, milk, edible oil, sugar and tea. It is expected that the water deficit will reach 80% by 2030.

### Risks of the Renaissance Dam Collapse:

What is worse than reserving the Nile water is the risk of the dam's exposure to cracking or collapse, leading to the sinking of Nile countries in its water and burying them under its silt, as happened in similar incidents. Unlike the High Dam, the construction of the Renaissance Dam was done through concrete blocks which exposes it to the risk of cracking and collapse because of earthquakes. Like other giant facilities, dams are exposed to the risks of cracking and collapse due to earthquakes, pressure of the accumulating silt in front of the dam or the severe rush of water as a result of floods, tidal mountain falls or water leaks in the dam structure and its incubator area, leading to erosion of the soil.

Moreover, there are risks of the defects in the design, implementation and exaggerated height. The dash speed of the Blue Nile is sometimes more than half a billion cubic metres per day at altitudes sometimes up to 600 metres. What reinforces fears of the dam collapse is the conflicting information concerning its capacity (it was 18 billion cubic metres at the beginning), its height and weakness of its geological and technical studies. In addition, there is lack of safety guarantees, and prevalence of failure of development projects in Ethiopia, as well as the world's harsh experiences of great disasters due to the collapse of dams.



In the past, the Ma'rib Dam in Yemen collapsed causing the migration of most of the population and their disintegration among the peoples of the region. Similarly, the dam of China's Henan Province collapsed in 1975, killing 171 thousand people and destroying 11 million homes. The Teton Dam, in the US State of Idaho, also collapsed in 1976 during the process of filling the tank. More recently, a dam near Jakarta collapsed in March, 2009, killing 67 persons. In the same month of the same year, 50 people were killed as a result of the collapse of a dam in Indonesia. The latest disaster is the collapse of Allio Dam in India on January 12<sup>th</sup>, last year during the test for the first time.

### Late and Difficult Solutions:

There are a number of options in front of the governments of Egypt and Sudan to deal with the crisis. The first option is that of negotiations and agreement with the Ethiopian side to ensure Egypt's and Sudan's historic rights of the Nile and joint supervision in design, implementation, maintenance, verification of security conditions, ensuring non-fluctuation of the flow of the river as well as researching in water harvesting projects to compensate the losses as a result of evaporation of water and leakage in the ground in front of the dam. Some parts of this proposal are no longer valid as it is too late, such as the joint supervision in design and implementation, as the dam is now in the operation stage.

In other words, it must be agreed to control the water flow rate in order to ensure that the needs of agriculture and navigation in the Nile will not be affected, and the turbines of Egypt's and Sudan's dams will not stop, depending on the strategic reserve in Lake Nasser.

Thus, the stock of Renaissance Dam Lake becomes complement to the stock of Lake Nasser, taking into account the loss of a large proportion of water as a result of



evaporation and leakage in the earth layers in front of the Renaissance Dam. Among the suggested security conditions, is the shrinking of the Renaissance Dam and replacing it with a number of small dams, so that the damages would be limited if one of them collapsed. It is preferred that such agreement be documented and guaranteed internationally, including specific penalty clauses. However, this proposal is also no longer possible, as the Renaissance Dam has already been completed.

The Ethiopian side can also offer some suggestions for water harvest projects in the high Blue Nile to compensate for losses resulting from evaporation in front of the dam and the water leak in the earth layers.

In return, Egypt can offer a package of incentives to the Ethiopian and the Sudanese sides, including wider economic integration with trade exchange agreements among the three countries, and connection of roads, railways and electricity networks. Ethiopia has linked its electricity network with Sudan, but there is no circuit link between Egypt and Sudan. The difficulty of this proposal is financing, which has become a dilemmatic crisis to Egypt.

The authorities of the military coup in Egypt turned their back on integration with Sudan, where it froze the opening of the land route between Egypt and Sudan, and halted a project linking the electricity networks between the two countries and the project of reclamation of one million acres in Sudan. So, opportunities of cooperation with Sudan are weak under the current coup government due to the Sisi authorities' hesitation to engage with Sudan in any economic projects.

This giant dam will generate about 6000 megawatts of electricity. Ethiopia will need electricity connection with Egypt to export this energy as well as the energy of other Ethiopian dams to the network of the eight countries, Gaza Strip and the European Union countries. We must here remind the Egyptian side of the possibility of imposition of charges on the transit of the electric power through its territory, as is the

case in the Suez Canal and maritime communications cables. In other words, the role of Egypt is pivotal to the success of the Renaissance Dam, the only purpose of which is to generate electricity for export.

Egypt can request help from the Arab countries, especially the Gulf countries with regard to their common interest with Ethiopia. There are Ethiopian labourers in the Gulf countries as well as the Gulf investments in Ethiopia, as they provide development assistance to Ethiopia and the African countries. What makes this very difficult is the different points of view between Egypt and the Gulf countries on the regional role. The picture (of relations) is now governed by conflict not by integration.

There are those who call for the use of force in dealing with the crisis. The adoption of force or even threatening to use it can send a message to the Ethiopians and the other countries of the Nile Basin that the Nile water is a red line, and that the turbulent political situation will not deter the Egyptian Army from securing the sources of the Nile.

For example, the threat of using force can be through sending a swarm of Egyptian fighter jets to portray the dam. But, this option is difficult in the light of Sudan's support of the dam. However, Egypt can attract Sudan to its side through a mutual defence agreement, conducting joint exercises, the establishment of an Egyptian military base near the border with Ethiopia to help ease the international embargo on Sudan and rein in the rebels. This proposal will be rejected by international powers which want Egypt to remain captive to multiple pressures.

Egypt can promote such option through preventing the Ethiopian ships from passing through the Suez Canal until the two parties reach an agreement on the dam. The Egyptian government can also wave to prevent passage of vessels belonging to the countries which support establishment of the dam. What boosts this option is that countries like the United States and Israel use pre-emptive strikes in the pretext of

protecting their national security. If Egypt did not use the Suez Canal as a pressure tool against hostile countries, when would it use it? If the Egyptian Army did not move to protect the Nile, when would it move? What would be the use of Rafale jet fighters, the Russian missile system and the French aircraft carriers that have been purchased recently? However, traffic through the Suez Canal is organized by international conventions, which may not enable Egypt to carry out this proposal. It is noteworthy that the Renaissance Dam cannot be hit after its establishment is completed, as destroying it after the filling of the reservoir will flood Sudan. So, there must be a decisive action now and not tomorrow; either to reach an agreement, provide guarantees and maintain joint coordination between the two countries, or to resort to the use of force and sanctions. The success of the Renaissance Dam or its collapse threatens the existence of Egypt and Sudan and would reshape the region, resulting in the migration of millions outside the Nile Valley. And thereby, the military coup wasted several opportunities and pressure papers that could have been practiced on Ethiopia to prevent the building of the Renaissance Dam.

(N.B.: **Part 3** of this documentary file will start with: the suffering of agriculture in Egypt)