



PRESS RELEASE

24th Cairo Climate Talks

September 21-22, 2014

“Lifting Energy Subsidies: A Pathway to Renewables?”

Egypt is in the midst of an energy crisis that is being felt across the board, from residents to small businesses to major industries. Political unrest and the resulting economic downturn have exacerbated the shortage by making it difficult to maintain or build power stations and secure the capital and natural gas to expand power generation, which was at 70 percent of capacity by summer 2014.

Energy subsidies constitute a huge burden on the state budget that the government is beginning to reallocate to other needs. For fiscal year 2014/2015, oil product subsidies amount to more than LE100 billion and electricity subsidies LE27 billion.

Government steps to remove electricity subsidies over the next five years and take other measures to solve the crisis, including Feed in Tariff reform to encourage renewable energy, could open opportunities for new, more sustainable energy sources.

The 24th [Cairo Climate Talks](#) “Lifting Energy Subsidies: A Pathway to Renewables?” brought together public and private sector stakeholders to discuss recently announced schemes for subsidy restructuring, their economic, political and social implications as well as opportunities for renewable energy providers and innovators.

German Ambassador Hansjörg Haber opened the talks by saying the crisis “offers the opportunity to rethink the current system of energy supply. Meeting the growing demand in the future requires alternative sources of energy as well as a more efficient use of the resources available today.”

“Germany has recently initiated a process which we call in German “Energiewende” — a radical transformation of our energy sector,” his excellency said. “We decided to phase out nuclear energy until 2022 and have set ourselves a very ambitious target — in 2050 we intend to cover 80 percent of our electricity demand with renewable energies. We introduced feed-in tariffs for renewable energies, with

this scheme having become one of our most successful export hits. We are extremely happy, that last week also the Egyptian Government has officially adopted a feed-in-tariff for wind and solar energy.”

Director of the German Science Center (DWZ), which hosted the panel discussion, Dr. Roman Luckscheiter wished the more than 200 participants a “fruitful, and renewable experience today here in the heart of Cairo,” adding, “let there be no power cuts during our joint activity.”

Among the five panelists was Dr. Hafez El-Salmawy, Managing Director of the Egyptian Electric Utility and Consumer Protection Regulatory Agency (EgyptERA) and one of the architects of the plan to phase out electricity subsidies over five years and introduce the recently announced Feed-in-Tariff scheme to incentivize renewable energy providers to contribute to the electricity grid.

Salmawy said that though the country was anticipating an electricity shortage, it came sooner than expected.

“What you’re facing now is not really an energy crisis, it’s a financial crisis,” he said. “You still have resources [oil and natural gas] but you don’t have money to get them out... so the system is in shock.”

“I believe the system will regain balance within two to three years again if they can recover from this, but this doesn’t come by default, it comes from much-needed reforms like liberalizing the gas and electricity market, creating an improved framework for investment and restructuring service providers or electric companies.”

Eng. Ahmed El-Sewedy, President and CEO of Elsewedy Electric, said that while businesses are still evaluating the Feed-in-Tariff scheme announced by the Ministry of Electricity last week, subsidy restructuring is a step in the right direction to encourage investment and privatization and improve power supply in the long-term.

“Over the next 10 years in Egypt energy has to be fully invested by the private sector including generation and distribution,” he said.

Political economist Dr. Amr Adly agreed that the subsidy program was fiscally unsustainable both for the electricity sector and the state budget, but said more should be done to protect the most vulnerable segments of the population from the impacts of subsidy cuts.

“One of the basic problems is subsidy cuts were not complemented with other measures to absorb the inflationary impact,” said Adly who is a scholar with the Carnegie Middle East Institute. “The government wanted to save LE40 billion-LE50 billion per year and of course the government has been saying the beneficiaries [of energy subsidies] are primarily the rich, but inflation is going to hit the poorer segments where 50-60 percent of income is spent on basic goods. Even a few years ago with the World Bank there was talk of establishing a safety net to compensate the poor, but this hasn’t happened.”

KarmSolar CEO and Cofounder Ahmed Zahran, whose company builds off-grid solar solutions primarily for farmers, said their business model has been successful because it is based on innovation and competition with existing products like subsidized diesel.

“The prices of the Feed-in-Tariff are good, but there are many things still dependent on government decisions like how to get land, and that is a problem when you create a business model dependent on

politics. It's also linked to a budget that is currently suffering from deficit. So I wouldn't bet that FiT is going to dramatically change the market, I would bet on offering something that makes sense economically that will compete," he said.

Zahran also said financial institutions should catch up with renewable energy technology by offering loan packages to support and encourage investment in the industry.

Eng. Yasser Sherif, General Manager of Environics, has been working on a study by the World Bank, Ministry of Petroleum and the International Institute for Sustainable Development this year to survey people's perception of electricity supply and subsidy issues. He believes people will be more open to accepting price increases if the government is transparent about a long-term vision for improved quality of services.

"If you want to achieve transition you have to use all tools available ... Subsidy reform is part of the transition. What I suggest is we see it not as a measure to be taken because of debt and financial issues but because there is a different vision for the future. And this is what people I met were demanding because people want to see subsidy reform as a different path."

Background Information:

The Cairo Climate Talks are conceived, organized and hosted as a cooperation between the German Embassy in Cairo, the Egyptian Ministry of Foreign Affairs, the Ministry of State for Environmental Affairs (EEAA), the German Science Center (DWZ), the German Academic Exchange Service (DAAD), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Egyptian German High Level Joint Committee for Renewable Energy, Energy Efficiency and Environmental Protection (JCEE). For more information, please visit our [website](#) or contact press@cairoclimatetalks.net.