EGYPT OIL&GAS RESEARCH & ANALYSIS

Industrial Gas Pricing Reform

From Subsidies to Cost Recovery

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From Subsidies to Cost Recovery

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Egypt's industrial gas sector consumed 536.2 billion standard cubic feet (bscf) in fiscal year (FY) 2024/25, approximately one-quarter of the nation's total gas supply. Fertilizer plants were the largest consumers at 207.7 bscf, followed by iron and steel at 82.4 bscf,, highlighting their role as the backbone of Egypt's industrial export base, according to the Egyptian Natural Gas Holding Company (EGAS).

However, the pricing framework underpinning this consumption has become structurally misaligned. A widening supply-demand imbalance, rising import dependency, and elevated global gas prices have collectively increased the cost of supply beyond the level reflected in regulated domestic tariffs.

Against this backdrop, pricing reform has become unavoidable. The government's transition to cost-recovery pricing, aligned with global standards supported by International Monetary Fund (IMF) frameworks, is necessary.

The reform aims to align industrial gas prices with economics of supply, import parity, and infrastructure maintenance. This transition is designed in three phases: gradual adjustment through 2022, acceleration through 2025, and a price floor in 2026.

But reform carries sharp consequences. Rising gas prices constrain margins and risk shifting production to lower-cost jurisdictions. Yet without reform, supply constraints will intensify, forcing industrial rationing and underutilization of capacity, an equally destructive outcome.

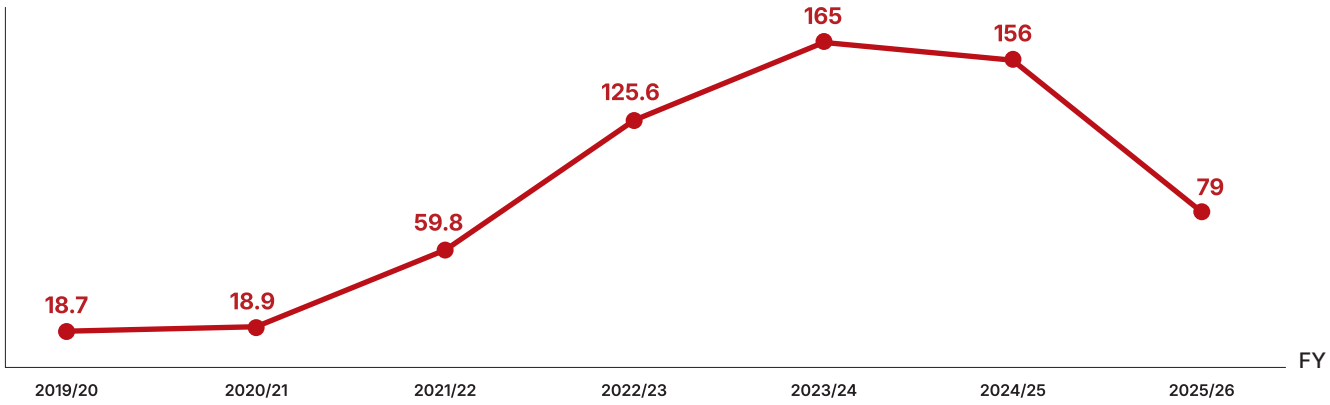
This report examines gas pricing reform as a structural inflection point for Egypt's industrial base and petroleum sector. We assess how pricing realignment affects competitiveness, investment, and sectoral resilience, and explore the policy pathways that balance cost recovery with industrial viability.

Reform Drivers

Fiscal Pressure and Subsidy Burden

Egypt's industrial gas pricing reforms were driven by rising energy subsidies and increasing reliance on imported energy supplies. Historical fuel subsidy burdens declined significantly following earlier reform rounds. However, elevated global energy prices subsequently drove them higher again, according to the Ministry of Finance (MoF).

Budget-Sector Fuel Subsidies Path (EGP billion)



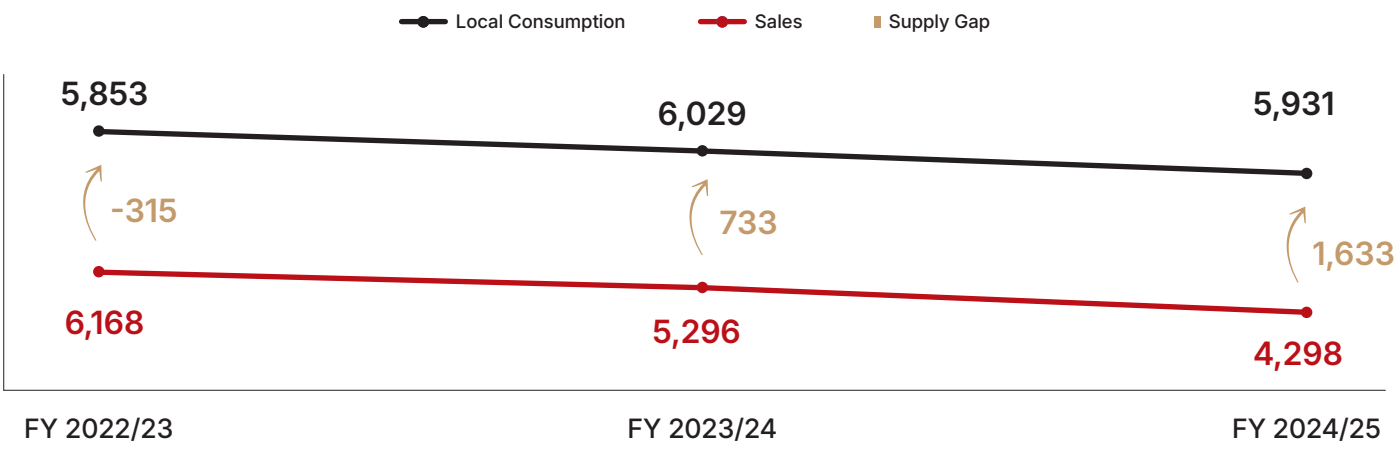
In parallel, declining domestic gas production and growing reliance on imported gas contributed to increasing the overall cost of energy supply and intensified pressure on Egypt's energy balance.

Meanwhile, Egypt accelerated investments in liquefied natural gas (LNG) import infrastructure to secure domestic supply amid tightening market conditions. In 2025, Egypt's total regasification capacity reached 2,700 million standard cubic feet (mmscf/d), reflecting the country's growing ability to import LNG and secure a domestic gas supply, according to the Ministry of Petroleum and Mineral Resources (MoPMR).

Structural Supply-Demand Imbalance

Egypt's natural gas market has increasingly faced structural supply-and-demand pressures, driven by declining domestic production and persistently high consumption. Both total gas production and sales gas have declined in recent years despite continued upstream development activity. Meanwhile, domestic consumption remained elevated, particularly across electricity generation and industrial sectors, according to EGAS.

Natural Gas Market Balance Snapshot (mmscf/d)



The widening gap between available supply and domestic demand clearly highlights the emergence of a structural imbalance, where consumption increasingly exceeds the volumes available for distribution.

At the same time, domestic demand remained heavily concentrated in a limited number of sectors, reducing supply flexibility within the market.

Industrial Share of Domestic Gas Consumption in FY 2024/25



24.8%

This structural concentration increased pressure on domestic gas allocation and made it increasingly difficult to maintain historically low regulated gas prices amid rising import costs and global LNG market volatility. Within Egypt's IMF-supported reform framework, industrial gas pricing increasingly moved toward cost-recovery principles, making domestic pricing more reflective of underlying supply economics.

Industrial Gas Pricing Under Reform

Egypt's industrial gas pricing has undergone a fundamental transformation since 2014, shaped by rounds of subsidy reform, shifting production dynamics, and evolving fiscal pressures. For much of the decade, the government tried to balance the need to reduce the subsidy burden against the risk of eroding industrial competitiveness.

Reform and Relief (2014–2020)

The 2014 reform delivered the first major hike in industrial gas prices in decades, implemented as an immediate adjustment rather than a phased increase, raising prices of gas to fertilizers and petrochemicals to $4.5 per million British thermal units (MMBtu), cement to approximately $8/MMBtu, and iron and steel to around $7/MMBtu as part of a sweeping subsidy overhaul that significantly reduced the national subsidy bill.

Those levels were then held flat through the remainder of the decade, while broader fuel subsidies underwent four further rounds of cuts between 2016 and 2019 under successive IMF arrangements.

The trajectory reversed in October 2019 when Zohr's peak output pushed Egypt into surplus. The government delivered the only downward price adjustment on record, cutting cement to $6/MMBtu and iron and steel to $5.5/MMBtu.

Prime Minister Decision No. 1884/2019 simultaneously formalised a ministerial committee mandated to review industrial gas prices every six months, according to the MoPMR.

Reversal and Acceleration (2021–2022)

While gas production reversed its course and started a steep decline in 2021, consumption continued to grow, reframing the framework of subsidised pricing. A 28% hike in October 2021 was followed by a more consequential 2022 round: gas prices to cementfactories nearly doubled to $12/MMBtu. Meanwhile, nitrogen fertilizer producers were placed on a floating formula tied to global urea prices, marking Egypt's first market-linked industrial gas tariff, and a structural departure from the flat-rate model in place since 2014.

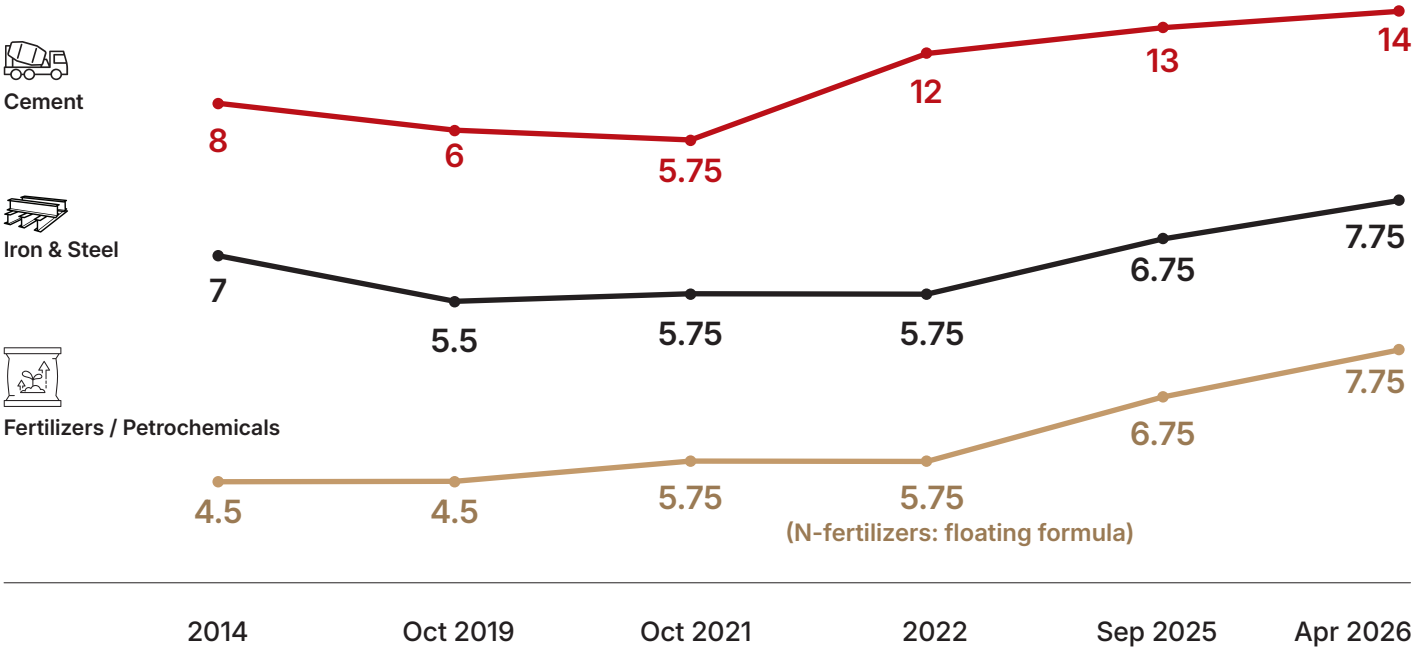
Cost Recovery Push (2023–2025)

With natural gas production declines and LNG imports landing at approximately $13.50/MMBtu, the gap between procurement cost and domestic tariffs became fiscally untenable. The December 2024 decrees addressed payment mechanics, tying industrial invoices to the prior month's Central Bank of Egypt's (CBE) exchange rate, while a flat $1/MMBtu hike in September 2025 was accompanied by a shift to quarterly price reviews from January 2026.

Price Floor Introduction (2026)

Decree No. 1306/2026 established a formal minimum floor of $6.5/MMBtu, a new adopted approach in Egypt's gas pricing history. Accelerated by the Strait of Hormuz closure and the loss of Israeli gas imports covering roughly 16% of national gas consumption, the decree signals a shift in policy intent: from periodic adjustment toward a structural cost-recovery baseline underpinned by Egypt's $8 billion IMF program, according to the Official Gazette.

Egypt's Industrial Natural Gas Prices Trend ($/MMBtu)



Sectoral Impact Assessment

Industrial gas pricing reforms are expected to affect sectors unevenly, depending on their level of gas dependency and feedstock intensity. Gas-intensive industries, particularly fertilizers and petrochemicals, remain among the most exposed to tightening domestic gas market conditions and the gradual shift toward more cost-reflective pricing mechanisms.

Fertilizers

The fertilizer sector remains Egypt's largest industrial gas consumer, making it the most directly exposed to pricing reform. Its natural gas consumption declined from approximately 227.6 billion cubic feet (bcf) in FY 2023/24 to around 207.7 bcf in FY 2024/25, reflecting tighter gas supply conditions alongside adjustments in industrial gas utilization and production activity. according to EGAS.

Natural gas serves as a core feedstock in ammonia and urea production, meaning gas costs are directly embedded in output pricing rather than treated as a marginal energy input.

The minimum natural gas price for fertilizer factories was raised to $8.5 per MMBtu, as stated by Egypt's Minister of Industry, Khaled Hashem in April. While this increase may exert pressure on operating margins and pose potential production challenges, fertilizer producers benefit from global price linkage, allowing a partial pass-through of higher input costs into export prices.

Fertilizers Share in Industrial Gas Consumption in FY 2024/25

~39%

It worth noting that Egypt's fertilizer exports increased from approximately $2.48 billion in 2024 to nearly $2.81 billion in 2025, according to the Central Agency for Public Mobilization and Statistics (CAPMAS).

The government also implemented a temporary export levy of $90 per ton on nitrogen fertilizers for three months in May 2026 to balance domestic supply and market stability, according to a decision published in the Egyptian Gazette in May 2026.

Petrochemicals

Egypt's petrochemical sector stands at a strategic crossroads. With 4.5 million tons (mmt) of annual capacity, exports to nearly 50 countries, and a national target to lift its GDP contribution from 3% to 7.5% by 2030, the sector's growth agenda is now facing a key cost challenge
, according to the MoPMR.

Gas feedstock prices have risen to about $7.75/MMBtu, up 72% from four years ago, and now account for nearly half of production costs. This has widened a major competitiveness gap, as regional producers, particularly in Saudi Arabia, pay as little as $0.75–$1.00/MMBtu, leaving Egyptian producers at a structural disadvantage.

Unlike the fertilizer sector, petrochemical producers have limited ability to pass through higher input costs, making them more directly exposed to pricing pressures. The impact is already visible, with Year-on-Year export growth slowing from 71% in 2024 to 22% in 2025. While firms are adjusting through efficiency gains, sustained pressure on margins raises concerns about long-term expansion plans.

Without pricing stability or targeted support mechanisms, the National Petrochemical Plan's ambition of adding 7 mmt of new capacity may face delays. The coming period will be decisive in determining whether the sector can remain a growth engine or shift into constrained expansion under rising cost pressures.

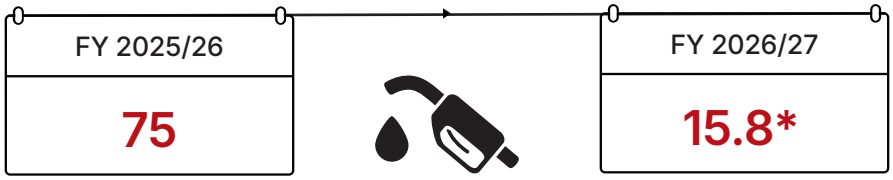
Balancing Fiscal Gains and Industrial Pressures

Reduction in Energy Subsidies and Cost Efficiency Gains

Recent pricing reforms contributed to reducing budget-sector energy subsidy requirements through gradual price adjustments and the expansion of cost-reflective pricing mechanisms. These measures supported broader fiscal consolidation efforts and reduced hydrocarbon subsidy pressures under Egypt's ongoing energy sector reform program.

At the fiscal level, the MoF projections indicate continued reductions in planned fuel subsidy allocations as part of broader fiscal consolidation efforts.

Planned Fuel Subsidy Allocations (EGP billion)



*Estimated

Rising Production Costs Across Energy-Intensive Industries

A central implication of pricing reform is the structural increase in production costs across gas-intensive industries. Higher gas tariffs have raised input costs for sectors such as fertilizers, petrochemicals, steel, and ceramics. In nitrogen-based fertilizers and petrochemical industries, gas makes up around 70% of production costs, the highest of any sector, resulting in immediate margin compression and reduced operational flexibility, according to EnterpriseAM.

Weakening Exports Competitiveness

Egypt's implementation of a $6.5 per MMBtu gas price floor for energy-intensive industries, including cement, steel, and petrochemicals, severely compresses profit margins and diminishes export competitiveness. These IMF-backed reforms increase production costs, reducing the competitive pricing advantage that crucial sectors hold in global markets.

Egypt's industrial gas pricing reforms mark a decisive turning point for the country's industrial landscape. While higher gas costs have pressured margins and export competitiveness in sectors like fertilizers and petrochemicals, these reforms are essential to ensuring fiscal sustainability, securing domestic supply, and aligning with global market realities.

Moving forward, the success of this transition will hinge on balancing cost recovery with industrial resilience, supporting efficiency improvements, and maintaining export competitiveness. Ultimately, the reforms set the stage for a more sustainable, modern, and globally competitive industrial sector.


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