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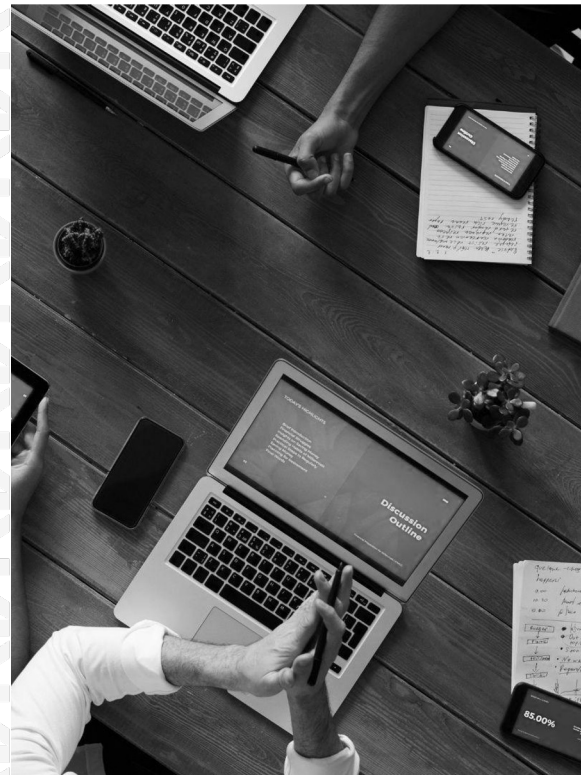
Business Bulletin

Egypt introduces Law providing Incentives for Green Hydrogen Projects

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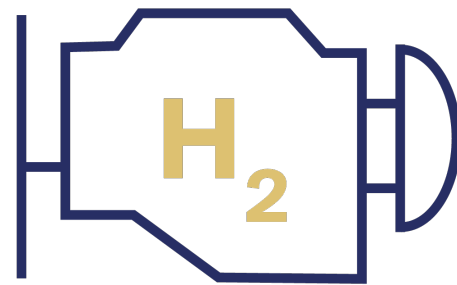
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Introduction

The President of Egypt ratified Law no. 2/2024, providing incentives for green hydrogen production and its derivatives. The law was approved by the House of Representatives in early January 2024. The aim of the legislation is to attract increased investment in Egypt's developing green hydrogen sector through a package of financial and non-financial incentives targeting the whole green hydrogen value chain. Law no. 2/2024 builds on the GoE's increasing efforts to develop as green hydrogen production hub, capitalizing on Egypt's renewable energy resources, strategic location, water desalination experience, and asset and infrastructure advantages.

Since 2022, the GoE has worked on developing a low-carbon hydrogen sector in Egypt. These efforts have included signing a number of low-carbon hydrogen agreements over the last couple of years for the development of pilot projects. The implementation of pilot projects shall inform decision-making on the necessary conditions to create an enabling environment for low-carbon hydrogen sector development. Furthermore, the GoE has also worked on developing a national strategy for the development of low-carbon hydrogen. In the development of a national strategy, the GoE developed a strategic framework for the development of low-carbon hydrogen based on an assessment on the potential of low-carbon hydrogen supply chains in Egypt, conducted with the support of the European Bank for Reconstruction and Development (EBRD). Additionally, in September 2023, the Cabinet of Ministers approved the formation of the National Council for Green Hydrogen, which shall be tasked with coordinating green hydrogen development in Egypt.



Eligible Projects

- Facilities producing green hydrogen and its derivatives.
- Desalination plants allocating at least 95% of their output for green hydrogen production.
- Renewable power plants dedicating a minimum of 95% of their output for green hydrogen production.
- Projects involved in the transportation, storage, or distribution of green hydrogen.
- Projects involved in the manufacture of equipment and production inputs for green hydrogen facilities.

Project Requirements

- Project agreements must be concluded within five years from the issuance of the law.
- Projects must be operational within five years from the conclusion of project agreements.
- Project expansions are eligible for incentives so long as their agreements are concluded within seven years from the operationalization of the initial project.
- Projects must secure a minimum of 70% of its financing through external sources.
- Projects must use a minimum of 20% of local production inputs.
- Projects must contribute to capacity building and knowledge transfer, as well as contribute to the development of the local surrounding areas.

Incentive Package

Tax incentives and fee exemptions

1. A cash investment incentive, ranging from 33% to 55% from the project's income tax.
2. VAT exemption on exported output and on all equipment, tools, machinery, devices, raw materials, and necessities required for the licensed activity, excluding passenger cars.
3. Exemption of property tax, stamp duty, documentation fees, and other monthly fees, as well as coverage of costs related to credit facilitation, mortgages, land registration, and customs duties on essential imports for the projects, excluding passenger cars.
4. 30% reduction in marine services fees
5. 25% reduction in industrial land fees and a 20% reduction in fees for the right to use storage warehouse land at ports, as well as ability to defer payments of industrial and storage land fees

Other Non-Financial Incentives

- Golden License: The projects shall receive a golden license (a single approval replacing all approvals in the investment law), to streamline approval procedures.
- Foreign Worker Employment: Permission to employ up to 30% foreign workers for 10 years from the signing of initial project agreements.
- Establishment of Special Customs Departments: Authorization to create special customs departments for the exports of the projects.

Conclusion

According to article 6 of the law, the Cabinet of Ministers is set to issue implementing decisions for the law. In these implementing decisions, the Cabinet of Ministers may opt to expand the definition of eligible projects or further clarify some of the requirements of the law.

The development of an incentive package for green hydrogen projects and its derivatives reaffirms the GoE's commitment to growing the low-carbon hydrogen sector in Egypt. The legislation aims to reduce risks to potential investors in green hydrogen projects and enhance the financial viability of projects. An important factor in determining the financial viability of green hydrogen projects will be the levelized cost of hydrogen (LCOH) production. Reports indicate that, without any incentivizing measures, Egypt possesses one of the lowest LCOH for green hydrogen globally. However, a number of countries have introduced aggressive incentives schemes, which is likely to promote increased competition over limited short-term demand.

There also remains significant challenges facing the global development of a low-carbon hydrogen economy, such as the development of the low-carbon hydrogen market. Although, several countries have committed to produce and supply low-carbon hydrogen, a demand market and substantial offtake agreements have yet to materialize. Furthermore, the delay in the development of internationally recognized certification and guarantee of origin mechanisms is also important challenge to consider, but a number of regulatory bodies globally are engaged in developing the required mechanisms. Nonetheless, the acceleration of global decarbonization efforts and the adoption of stricter greenhouse gas emission standards is likely to rapidly grow demand for low-carbon hydrogen and its derivatives.

Thank You.