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MATTER:

GREEN HYDROGEN PRODUCTION PROJECTS INCENTIVES, DERIVATIVES AND CONDITIONS

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The aim of the Green Hydrogen Law is to provide incentives and regulations that support and promote the development of environmentally friendly Green Hydrogen projects in Egypt.

Introduction

Hydrogen that is electrically extracted from fresh water sources using renewable energy ("Green Hydrogen") is considered environmentally friendly compared to conventional hydrogen production methods. Green Hydrogen projects are promoted to increase the reliance of natural energy sources that that are replenished on a human timescale ("**Renewable Energy**").

In 2022, the administration led by President Abdel Fattah El-Sisi introduced a strategic plan for green hydrogen to align with contemporary demands for sustainable energy. Following Egypt's commitment and implementation of various tangible measures to initiate this project, several international financial institutions, notably the European Bank for Reconstruction and Development, have invested in the initiative. More recently in 2023, the Egyptian Cabinet has approved the establishment of the National Council for Green Hydrogen to boost green investment and support sustainable development. The council, led by Prime Minister Mostafa Madbouly, includes key ministers, and will oversee the implementation of Egypt's National Strategy for Green Hydrogen. It aims to address challenges in green investment, review related legislation, and position Egypt as a global hub for green hydrogen production.

On January 27, 2024, Parliament passed into law and made effective Law No. 2 of 2024, which focuses on the incentives and derivatives for green hydrogen projects in Egypt ("**Green Hydrogen Law**").

1. Overview on the Green Hydrogen Law

Scope of the Green Hydrogen Law

This law will apply to green hydrogen projects which project's agreements [1] have been concluded within five years from the date of publication of this law (January 27th, 2024).

The Green Hydrogen Law applies to projects that consist of [2] :

- Green hydrogen factories and factories that produce final products that depend on green hydrogen for production like green ammonia and green methanol ("**Derivates Of Green Hydrogen**")
- Freshwater production stations that are at least 95% utilized for the purpose of producing Derivatives of Green Hydrogen.
- Power stations that are generating electricity from renewable energy sources which allocate a minimum of 95% of their production to supply the factories that produce Derivates of Green Hydrogen or freshwater production stations discussed in the previous paragraphs.

[1] Project's agreements are defined as contracts, in relation to projects for the production of green hydrogen and its derivatives, which are concluded between the project company and the competent authorities or state affiliated companies that are administrating the public utility.

[2] This is notwithstanding the Natural Environment Economic Zones Law No. 83 of 2002 and Investment Law No. 72 of 2017.

- Projects specifically dedicated to the transportation, storage, or distribution of Derivatives of Green Hydrogen within Egypt; or

- Projects that are explicitly focused on directly fulfilling the requirements and needs of the factories that produce Derivatives of Green Hydrogen mentioned in paragraph (1).

Any Green Hydrogen project will require the approvals, including a prime ministerial decree, following submission to the Prime Minister of Egypt **("Competent Minister"),** and after obtaining the necessary opinions and approvals from that minister regarding the renewable energy focus on the project and the finance minister**.**

The Project Company

Any juristic person wishing to implement a Green Hydrogen project ("**Developer**") shall incorporate a project company that must take the corporate structure of a joint stock company whose purpose is the production of Derivates of Green Hydrogen ("**Project Company**"), as they are the only company types permitted to operate Green Hydrogen projects.

It is also important to note that the Developer is permitted to establish one or more operational branches for the company, concentrating on one or more of the company's purposes. Any and all Project Companies must, however, primarily concentrate on producing Derivatives of Green Hydrogen in accordance with the terms specified in the contracts governing the Derivatives of Green Hydrogen projects and any other contracts the Project Company signs with other administrative entities or companies associated/affiliated with the government ("**Project Agreements**").

Furthermore, the addition of new assets that lead to an increase in the production outputs of the project ("**Future Developments**") are permitted and covered under the Green Hydrogen Law. That said any Future Developments or expansions of a Green Hydrogen project will be implemented through an additional agreement that is supplementary to the Project Agreements. Specifically, this will occur after receiving approval from the Cabinet and obtaining the opinions of the Competent Minister responsible for electricity, renewable energy and sovereignty of land [3].

It is important to practice caution and note that any Future Development or Green Hydrogen agreement signed must abide by the relevant laws, regulations, and legal requirements which may not yet be available but will be published in the future.

[3] All projects concerned with Green Hydrogen Derivatives and their potential Future Developments will be eligible for the benefits and incentives specified in this law throughout the project's duration. However, this is contingent upon the Project Agreement permitting expansion within seven years from the commencement of the project's commercial operation.

2. Incentives of Green Hydrogen Projects

All Green Hydrogen projects will benefit from the following incentives:

1. **A tax incentive** titled the 'Green Hydrogen Incentive,' provides a tax incentive ranging from 33% to 55%, taking into consideration both the income tax of the project and any potential expansions. The Finance Ministry will ensure the application of this incentive within 45 days after the specified deadline for filing the tax return. Failure to comply will result in a delay fee, calculated based on the credit and discount rates announced by the Central Bank of Egypt on the first day of January preceding the incentive due date. This incentive is not treated as taxable income [4].

2. **A Value Added Tax (VAT)** exemption applies to all necessary tools, machines, devices, raw materials, supplies, and transportation means required to produce Derivates of Green Hydrogen, with the exception of commercial vehicles [5].

3. **A zero percent export tax,** which allows the export of Derivates of Green Hydrogen to occur at zero percent (0%) VAT.

4. **A land tax,** which makes it permissible to exempt Green Hydrogen projects from real estate tax on the project's land after receiving approval from the Cabinet following a decision by the Competent Minister.

5. **Related tax exemptions** also include exemptions on stamp tax, documentation fees, and registration fees associated with contracts for establishing companies, establishments, credit facilities, and mortgages necessary for the operation of Green Hydrogen projects. Notably, this exemption further covers land registration contracts essential for project establishment and customs tax on all imports necessary for the project, excluding commercial vehicles [5].

6. **The individual approval** according with the organization stipulated in the aforementioned Investment Law will be all that is required by Project Company to obtain to satisfy the requirements of this law.

7. **Relaxed import and export rules** are included to accelerate the project development. Specifically, the Project Company is authorized to independently or through third parties import necessary items for its establishment, expansion, or operation [6]. These items include raw materials, production materials, machines, spare parts, and transportation means essential for project execution, without the requirement to register them in the importers' register. The Project Company also holds the right to export its products directly or through intermediaries without the need for a license and without being obligated to register its exports in the exporters' register.

8. **Foreign employee employment** means that the Project Company has the right to employ foreign workers but only up to 30% of the total workers [7] .

[4] The categories and criteria for granting this incentive are determined by a Cabinet decision, based on the proposal of the Competent Minister and after consulting with the finance minister.
[5] This is also conditioned upon receiving approval from the Cabinet following a decision by the Competent Minister.
[6] This is notwithstanding any laws and regulations governing imports.
[7] This only applies during the first ten years form the date of signing the Project Agreements.

9. **A special customs department** is allowed for the Project Company. In other words, the Project Company has the permission to establish a special customs department for the project's exports and imports with the approval of the finance minister.

10. **Seaport and maritime** use discounts are also available. There is a 30% discount on associated and related fees when utilizing seaports, maritime transport, and/or services for ships in Egyptian sea ports [8].

11. **A usufruct discount** is also available, meaning the Project Company receives a 25% discount for the usufruct industrial lands allocated for establishing a Green Hydrogen production factory. Additionally, a 20% discount is granted for the usufruct lands for storage warehouses in the ports [9].

12. **Payments have a grace period** in exchange for the usufruct industrial and storage lands of the project and its expansions allocated by the authorities having jurisdiction over the land, so that payment begins from the date of commercial operation of the project, without accumulating any interest or fines.

13. **License grants and incentive periods** will align with the duration of the usufruct projects on the project lands to accommodate a swift production of Derivatives of Green Hydrogen.

[8] It also extends to the use of fixed and floating equipment and facilities belonging to the seaport authorities and the maritime safety authority. Additionally, it covers bulking activities, liquid and ship bunkering, and the utilization of electronic services offered by the Egyptian seaports administration.
[9] This is subject to annual increases based on the usufruct contracts and licenses, and compliance with any additional regulatory rules set by the relevant land authority

3. Conditions of Green Hydrogen Projects:

To benefit from the above-mentionned, a Green Hydrogen project shall fulfill the following conditions [10] :

1. **Commercial Operation Start Date**: The commercial operation of the project must begin within five years from the date of concluding the Project Agreements.
2. **Foreign Currency Target**: The project, including its expansions, must secure at least 70% of the investment amount in foreign currencies and the money must be invested from abroad.
3. **Use of Locally Sourced Materials:** The project is required to prioritize the use of locally sourced components, whenever they are available in the local market [11].
4. **Advanced Technology Use:** The project is required to actively facilitate the transfer and localization of modern and advanced technologies and techniques to Egypt. This includes a commitment to developing and implementing training programs for Egyptian workers.
5. **Local Development:** The Project Company must formulate a plan for the development of the local areas where it operates, following the principles of social responsibility stated in Article 15 of the referenced Investment Law.

Once a project starts seeking the production of Derivatives of Green Hydrogen, the Competent Minister or his authorized representative shall issue the necessary certificate to benefit from the incentives outlined above. This certificate shall be considered final and effective on its own without the need for approval from other parties.

4. Conclusion:

In light of the provisions of the Green Hydrogen Law, we have illustrated the benefits of establishing a Green Hydrogen company in Egypt, namely many incentives attached to several conditions.

In short, incentives for projects involving Green Hydrogen are extensive, ranging from financial investment incentives to tax exemptions, VAT incentives, and import/export tax benefits. The law streamlines approvals, relaxes import and export rules, and provides advantages for foreign employee employment, special customs departments, and discounts on seaport and maritime use. However, these incentives are contingent upon meeting specific conditions, including commencing commercial operations within five years, securing a significant portion of investment in foreign currencies, prioritizing locally sourced materials, employing advanced technology, and contributing to local development in line with social responsibility principles.

Ultimately, the Green Hydrogen Law, with its comprehensive incentives and stringent conditions, aims to foster the growth of environmentally sustainable projects while ensuring compliance with economic and developmental goals in Egypt.

[10] The Cabinet will issue a decision on the specific regulations mentioned here, based on a proposal from the Competent Minister and with input from the minister responsible for Renewable Energy projects, as well as the finance minister.
[11] A minimum of 20% of the components of the project must be locally sourced.

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