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The East Med Energy Report

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Israeli Energy Ministry gives natural gas a break in 2022

Israeli Energy Minister Karine Elharrar announced on December 15 that her Ministry's focus in 2022 will be on renewable energies. A dedicated department will be established within the Ministry this year and attention will be redirected to promote energy efficiency and the use of clean energy, and to invest in research and development. In 2022, "natural gas will wait", she said, to ensure that the coming year will be "the year of renewable energies".

How will this decision affect the gas sector, in concrete terms? Based on the Minister's declaration, it will affect:

(i) The holding of a fourth offshore licensing round. The tender was announced early in 2021 but never launched. Following the decision, it will be pushed back to an unspecified date.

(ii) A potential update of the government's natural gas policy. The Ministry of Energy will not adopt the conclusions of a report presented by a committee conducting a periodic review of the government's natural gas policy. The interim report was published for comments in June 2021. It called on the government to encourage exploration by providing incentives to companies and easing certain requirements. The committee recommended an increase in gas export quotas, which drew criticism from environmentalists. The committee's recommendations, including export quotas, will not be adopted this year. This, however, will not affect *actual* gas exports in 2022.

The decision does not concern work carried out by companies based on existing contracts and commitments. Chevron has brought forward the drilling of a development and production well in Leviathan to 2022 and is eyeing a further expansion of its Leviathan project. And Energean will proceed with the development of its Karish project, with first gas expected in mid-2022. The Greek company may run into complications this year, including with customers frustrated with the repeated delays suffered by the Karish project, but it is not the one-year halt that is going to affect its operations at this stage. Energean will kick off an offshore drilling campaign in 1Q 2022, starting with an exploration well in Block 12 to be followed by a development well in Karish-North and an appraisal well at Karish-Main.

Elharrar's announcement reflects a growing trend towards adopting climate-friendly policies and practices. In 2018, the previous Energy Minister announced that Israel is planning to ban the import of gasoline and diesel-powered vehicles in 2030, and in 2020, the government set a more ambitious target of 30% renewable energy by 2030, up from a previous 17%.
The current coalition cabinet is intent on boosting its green credentials, especially compared to previous governments. Ahead of COP26, Prime Minister Naftali Bennett declared the tackling of climate change as "a new national security interest of Israel". On October 29, Bennett and Elharrar announced that Israel aims to reach zero greenhouse gas emissions by 2050, upgrading a previous goal of reducing emissions by 85%.

Although these pledges are scarce on details, what is certain is that environmental considerations will be integrated in policies and in decision-making processes as demonstrated recently by the Environment Minister's decision to block an Israeli-Emirati deal to transport oil and petroleum products via the Eilat-Ashkelon pipeline.

But the exact value of the one-year break for natural gas is unclear. It remains to be seen how putting certain offshore activities on hold for a year would benefit Israel's climate efforts, knowing that natural gas was instrumental in bringing carbon emissions down by replacing coal in power generation. The decision could well be extended, but the discovery of offshore resources brought invaluable geopolitical and commercial benefits for Israel and boosted its relations with neighboring countries over the last decade. It will not be easy to rally support for a prolonged "break" for natural gas, especially if Israel's climate efforts do not require such a measure at this stage.

The decision has sparked a heated debate in Israel, but, unless extended or followed by other measures, the one-year break for natural gas as announced by Elharrar will have a limited direct impact on the sector.

However, it could have an indirect impact on the longer term in the sense that it perpetuates a trend of interventions in the sector that brings it to a relative halt every now and then, a fact that could discourage future investors.

Lebanon: The "French" link exploration in Block 9 to border demarcation

Since returning from a working visit to France in mid-January, Energy Minister Walid Fayad communicated the "French side's" position regarding drilling in Block 9 on various occasions, including on December 20 during a primetime TV interview on LBCI, and on December 29 at the Presidential Palace following a meeting with President Michel Aoun. By "French side", it would be fair to assume that the Minister is referring to TotalEnergies, the leader of the consortium holding exploration rights in Block 9, especially that he held meetings with officials from the French company. But he could also be referring to French authorities as he consistently avoided referring to the company by its name.

According to Fayad, the "French side" expressed concerns about conducting exploratory activities in Block 9 "in the absence of demarcation" (LBCI, Dec. 20). Considering the unstable security situation at the border and the risks associated with it, the "French side is not ready to proceed with drilling" (Presidential Palace, Dec. 29). Fayad added that discussions must be initiated to obtain some sort of security guarantees to prepare the ground for exploration.

Total's position was the subject of speculations and rumors in Lebanon, particularly after the company refrained from proceeding with drilling in Block 9 following the completion of its drilling in Block 4. Although the delay was attributed to the Covid-19 pandemic, many in Lebanon suspected the French company of caving to Israeli pressures and questioned the awarding of an exploration and production license in a sensitive block to a company which, they believe, was not up to the challenge.

Fayad's comments served to confirm an issue that was widely reported but never officially acknowledged. Since he is unlikely to disclose this type of information, and given the timing of his announcements – following a meeting with TotalEnergies' CEO –, the Minister may have sensed the company would not object to his move.
The Minister also hinted that the "French side" might be willing to pursue its original plans in Block 9 if it were to obtain certain "security guarantees". No doubt, these are not limited to the classic guarantees any company would require from a host country. In an area of conflict, this type of guarantees is needed from all parties involved.

Little progress is expected on this front in the absence of a breakthrough in U.S. mediation efforts. The newly appointed U.S. mediator Amos Hochstein has yet to return to Lebanon, fueling speculations among Lebanese officials about his prolonged absence. Following a first trip to Beirut in October 2021, Hochstein visited Israel in November and was expected back in Beirut shortly afterwards with feedback on potential solutions to the dispute. He is now expected in Beirut by early February, though no confirmation of his visit has been provided yet.

In the meantime, the showdown continues between Lebanon and Israel. In response to Lebanon's decision to resume the second offshore licensing round, Israel sent a note verbale to the U.N. Secretary General on December 23 objecting to the inclusion in the tender of areas where it "asserts sovereign rights or jurisdiction". Israel is referring to the southern part of Lebanon's blocks 8 and 10, which, it claims, falls within its maritime areas.

U.S. skeptical about the EastMed Pipeline

A non-paper addressed by the U.S. State Department to the Greek government on the subject of the EastMed pipeline rocked Greek media at the start of the new year. The information was first revealed in an article published on OmegaPress on January 7 by Greek journalist and diplomatic editor Sotiris Sideris. The story quickly took over Greek media and social media prompting the U.S. ambassador to post clarifications on Twitter and the American embassy to publish a statement on January 10.

The informal document, copies of which were also sent to the Cypriot and Israeli governments, expressed U.S. reservations over the pipeline, citing environmental concerns and commercial viability. More significantly, it also referred to the tensions the planned pipeline has created in the region, hinting at Turkey's vocal opposition to the project and its implications.

The EastMed Pipeline is a 1,900-km pipeline project with an initial capacity of 10 bcm/year designed to export Israeli and Cypriot gas resources to European markets via Greece and Italy, without passing by Turkey. It was announced soon after the discovery of major gas fields off the Israeli and Cypriot coasts between 2009 and 2011.

However, it quickly became clear that the project was driven mainly by political considerations rather than commercial interests. The planned pipeline carries an exorbitant price tag undermining the competitiveness of the gas it would transport to European markets, in a continent striving for cleaner projects. That explains why over the years the project failed to convince investors.

The U.S. is invoking environmental concerns to justify abandoning a project it never really threw its full support behind - beyond inconsequential political declarations - given its doubtful commercial viability and political challenges involved.

The State Department's Senior Advisor for Energy Security Amos Hochstein – who previously served in President Barack Obama's administration as Special Envoy for International Energy Affairs and Deputy Assistant Secretary for Energy Diplomacy and advocated for deeper energy cooperation among countries in the Eastern Mediterranean – has labeled the project a "pipe dream".

He acknowledged that during the years he was involved in the region's gas geopolitics, he tried to persuade politicians to let go of this "distraction" and focus on feasible and financeable infrastructure instead.

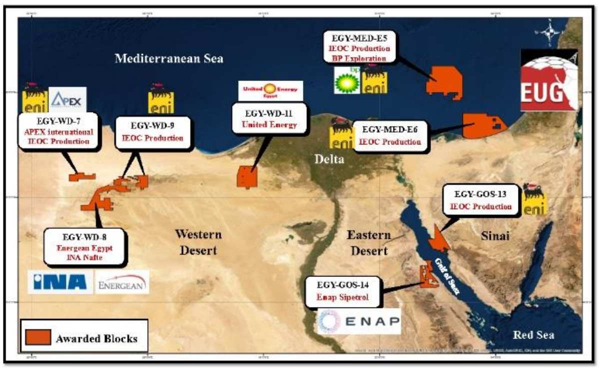
In its statement, the U.S. embassy reaffirmed Washington's strong support to "regional efforts that enhance and promote cooperation and regional stability, including the 3+1 mechanism in which the Republic of Cyprus (ROC), Greece, Israel, + the United States participate."

The statement confirmed that the United States remains committed to "physically interconnecting East Med energy to Europe", but that it is shifting its focus to "electricity interconnectors that can support both gas and renewable energy sources" such as the planned EuroAfrica and EuroAsia interconnectors.

The EuroAfrica Interconnector is a power cable connecting the Egyptian, Cypriot and Greek electricity grids, while the EuroAsia Interconnector connects the electricity grids of Israel, Cyprus and Greece.
Beyond Cyprus, both cables would follow a path that is similar to the route suggested for the EastMed pipeline, passing through waters that the Cypriots and Greeks consider as falling within their maritime zones, but the Turks consider as part of their Continental Shelf. Ankara has voiced opposition to these projects in the past.
In its non-paper, the U.S. has cited regional tensions as one of the reasons for abandoning the EastMed Pipeline, thereby indirectly casting doubts about its actual commitment to the planned interconnectors on the long-term, if conflicting maritime claims are not dealt with.

Egypt awards 8 blocks following its first international digital bid round

Egypt's Petroleum Minister Tarek El Molla announced the results of the 2021 oil and gas bid round on January 3. The tender was announced in February 2021, putting on offer 24 onshore and offshore blocks: twelve blocks in the Western Desert, nine in the Mediterranean and three in the Gulf of Suez. The tender was scheduled to close on August 1 but was extended until September 30.



Eight of the 24 blocks on offer were awarded, in what was considered by some as a lackluster outcome. Egypt, however, appears to be pleased with the results considering global market conditions. Four of these blocks are in the Western Desert, two in the Gulf of Suez and two in the Mediterranean:

Western Desert: Block "EGY-WD-7" was awarded to **Apex International** (operator) and **ENI**; Block "EGY-WD-8" to **Energean** and **INA**; Block "EGY-WD-9" to **ENI**; and Block "EGY-WD-11" to **United Energy**.

Gulf of Suez: Block "EGY-GOS-13" was awarded to **ENI**; Block "EGY-GOS-14" to **Enap Sipetrol**.

Mediterranean: Block "EGY-MED-E5" was awarded to **ENI** (operator) and **BP**; Block "EGY-MED-E6" to **ENI**. Both blocks are located in the eastern part of the Egyptian EEZ, adjacent to Palestinian and Israeli waters. Interestingly, none of the three frontier blocks in the Western Mediterranean were awarded.

Another bid round limited to one offshore block in the Mediterranean, the "North King Mariout" block, was launched in November 2021 and is due to close on February 28, 2022, following an extension of the deadline.

Qatar pledges $60m to gas pipeline connecting Israel, Gaza

The Qatari Committee for the Reconstruction of Gaza signed a memorandum of understanding with the Palestinian Energy and Natural Resources Authority and the Gaza Power Generating Company on December 26 specifying the mechanisms for purchasing and supplying natural gas to the Gaza Power Plant (GPP). The agreement is based on the Gas for Gaza project put forward by the Office of the Quartet in 2014. The project aims to provide natural gas to GPP, Gaza's sole power plant, to replace diesel in power generation.

Natural gas will be sourced from Leviathan and will flow to Gaza via a new extension that will connect to Israeli infrastructure. Under the agreement, Qatar will provide funding for the construction of the Israeli segment of that extension at an estimated cost of $60 million (the segment within Gaza, estimated at around €20 million, will be financed by the European Union).

The Palestinian side will convert the power plant to run on natural gas and will increase production capacity to at least 500 MW, knowing that the GPP currently generates around 70 MW using Qatari-funded diesel.

According to a report by the Office of the Quartet, both Qatari and EU financing are subject to specific conditions, including the signing of a Gas Sale and Purchase Agreement. Initial demand is estimated at around 0.2 bcm per year and could reach 1 bcm with the increase in generation capacity.

On paper, gas could start flowing to Gaza by 2024 bringing much needed relief to its electricity crisis, but the timeline might be ambitious given past delays and periodic hostilities between Israel and Hamas.

Cyprus: ExxonMobil kicks off drilling in Block 10

U.S. major ExxonMobil started drilling an appraisal well at its Glaucus gas discovery in Block 10 on December 21 to determine with more precision the reservoir's resource potential. ExxonMobil and partner Qatar Petroleum (now QatarEnergy) announced the discovery of Glaucus in February 2019, with estimated in-place resources of 5 to 8 trillion cubic feet of natural gas. The results of the appraisal drilling are expected by March 2022.

Though the drilling was denounced by Turkey and the Turkish Cypriots, the Stena Forth drillship arrived at its drilling destination without any Turkish interference as the area falls outside Turkish claims and is not licensed by the breakaway Turkish Republic of Northern Cyprus.

Earlier in the month, Exxon and partner QatarEnergy were awarded another exploration and production license for Block 5, which lies to the north of Block 10, on December 10. According to MEES, the companies are targeting a carbonate play which could extend through Block 10 and into Block 5.

LEGAL PERSPECTIVES

by Obeid & Medawar Law Firm

Cross-Border Unitization Agreements: A Brief Overview

Hydrocarbon deposits are migratory in nature.
What happens when a hydrocarbon deposit extends across man-drawn boundary lines demarcating the jurisdiction or sovereignty of different states, and can, technically, be exploited by either side?

It has been proven that the uncooperative exploitation of such deposits by either or both sides affects the ability of both parties to efficiently exploit the resources, and leads to competitive drilling and production with consequent economic and physical waste.

Under the common law "rule of capture" applied to underground reservoirs by an 1889 Pennsylvania court which acknowledged that ownership to subsoil oil and gas shifted from the land under which it was originally located to the land tract to which the resource has migrated following drilling on that land, licensees began competitively drilling in order to "capture first and capture most" of a straddling reservoir, leading to waste of subsoil resources, increased costs, duplicate drilling installations, wells, and producing facilities, affected reservoir drainage opportunities.

However, the paradigm changes when extrapolating the above common law rule to hydrocarbon deposits straddling international political borders, as it was noted that unilateral development and exploitation implied that one state extracting resource initially in place in another state's jurisdiction, would violate that state's exclusive (resource) rights and thereby breach sovereignty, jurisdiction and international law.
Hence, unitization appeared as a viable solution. With unitization, a deposit of hydrocarbons straddling international borders would be referred to, conceived, exploited and benefited from as one unit by all the owners of rights in the separate tracts overlying the deposit proportionately.

Further, the Charter of Economic Rights and Duties of States (UN General Assembly Resolution 3281/1972) stated: "In the exploitation of natural resources shared by two or more countries, each State must co-operate on the basis of a system of information and prior consultations in order to achieve optimum use of such resources without causing damage to the legitimate interest of others".

However, agreeing on the apportionment of quantities and costs is usually not enough. In order to ensure the most efficient exploitation, several issues require addressing, including: (i) unit area redetermination in light of relevant data, (ii) operation mechanism and/or position of contractors, (iii) jurisdiction and applicable laws, (iv) tax regimes, (v) decision making responsibility and (vi) settlement of disputes.

All of these issues are highly contentious, and the mere negotiation thereof could be conceived, in differing extents, as a breach to sovereignty or sovereign rights of one or all of the parties involved each of whom will logically be affected by its own political and legal backgrounds and the history of its hydrocarbon exploitation practice.

Every state's willingness to concede to agreement points will differ according to their own considerations for jurisdiction, sovereignty and socio-economic advantages, and will justify the difference between each cross border unitization agreement, ultimately governed by the following principles guiding civilized nations' behavior: (i) obligation to cooperate; (ii) obligation to not cause significant harm to other parties involved; (iii) obligation to inform and consult; (iv) the principle of optimum and reasonable utilization of resources; and (v) good faith.

This was evidenced when some states (such as Bahrain and Saudi Arabia) have opted for unusually simple cooperation agreements that preserved unity of reservoirs underlying their respective continental shelves, (jurisdiction goes to KSA over the Fasht Abu-Saafah oil field, half of all net income from exploitation goes to Bahrain), while most other states have reached much more detailed and complex arrangements.

Finally, cooperation between neighboring states with respect to cross-border hydrocarbon deposits has not yet been dictated into a specific obligation. However, the best option to date for optimum exploitation of such deposits has been through unitization. Among those that adopted that approach, is Cyprus, which in 2013 signed a unitization agreement with Egypt, and is in negotiations with each of Lebanon and Israel for the execution of similar agreements.