

The East Med Energy Report

Inside This Issue

- 1** New route for Israeli gas exports to Egypt
- 2** U.S. submits maritime border proposal to Lebanon
- 3** Delek Drilling rebrands as NewMed Energy
- 4** EMGF, BCG pursue cooperation on Forum's long-term strategy
- 5** U.S., Egypt launch Climate Working Group
- 6** IEC, Energroup sign MoU to develop hydrogen projects in Israel

New route for Israeli gas exports to Egypt

The Israeli Energy Ministry announced on February 16 that a new route to export natural gas to Egypt via Jordan was approved, with first flows reported by NewMed Energy (formerly Delek Drilling) on March 1.

Israeli exports to Egypt are set to increase to 650 mmcf/d in Q3 2022, but the capacity of the Israeli transmission system connected to the EMG pipeline which carries the gas to Egypt is unable to accommodate these volumes. A new offshore pipeline will be laid between the cities of Ashdod and Ashkelon, which, when completed, will eventually enable the export to Egypt of the full natural gas quantities specified in the agreements with Dolphinus Holdings (now known as Blue Ocean Energy).

But delays in completing the offshore pipeline prompted the Leviathan partners to seek alternative routes in the meantime. Although two pipeline projects are currently being examined to boost Israeli gas deliveries to Egypt – an onshore pipeline through the Sinai Peninsula and an offshore pipeline linking the Leviathan gas field to Idku's LNG plant – any new project would take years to be completed.

So, attention turned to existing infrastructure that could transport the gas to Egypt via Jordan. Gas from Leviathan will flow through the Israeli transmission system to the connection

point with the Jordanian transmission system near Beit She'an in northern Israel, before reaching the northern Jordanian province of Mafraq from where it will flow to Aqaba on the Red Sea and on to Egypt. According to a statement by Delek Drilling published on February 17, this route will allow the “maximization of the production” from Leviathan and the export of surpluses to the Egyptian market “mainly until completion of the Ashdod-Ashkelon offshore transmission system section”, which is expected in March 2023.

Exports through this new route are expected to stand at 2.5-3 bcm in 2022 (compared to around 4 bcm/year that normally flow via the EMG pipeline) and could potentially reach 4 bcm/year in the future. This is on top of the 3 bcm/year currently destined to the Jordanian market via that same route.

What both statements (by the Israeli Energy Ministry and by Delek Drilling) carefully avoid saying is that the gas will be transported via the Arab Gas Pipeline. The reason could be to avoid undermining Lebanon's plans to import natural gas from Egypt as the origin of the gas could be problematic for Damascus and Beirut (probably to a lesser degree for Lebanon since the gas it will end up receiving will be swapped in Syria).

U.S. submits maritime border proposal to Lebanon

U.S. Ambassador to Lebanon Dorothy Shea delivered a written proposal from Energy Envoy Amos Hochstein to President Michel Aoun on March 2 outlining ideas discussed to settle the maritime border dispute with Israel during his previous visit to Beirut. Copies of the proposal were also sent to PM Najib Mikati and Speaker Nabih Berri.

The U.S. envoy is now expecting a unified Lebanese response.

But, as mentioned in our [previous report](#), the decision does not rest with the three leaders alone. Hezbollah holds what can be described as “veto powers” over all matters related to Israel, including maritime borders. Officially, the Shiite party refuses to be involved in internal discussions over the border dispute with Israel, but the party's tacit approval will be needed if a deal is to be reached. A proposal that is rejected outright by Hezbollah would have a slim chance of being approved by the authorities.

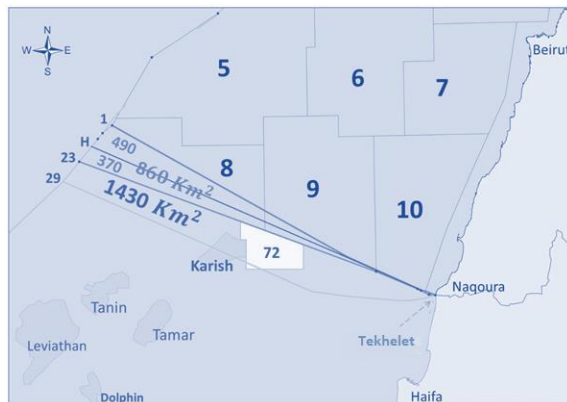
Last month, Hezbollah's Secretary General indicated in a TV interview that the party believes border demarcation is the responsibility of the State, while insisting that any form of normalization with Israel would be rejected. Though the tone was resolute and defiant throughout the interview, that segment was seen as an indication that the party would abide by any decision taken by Lebanese authorities as long as it would not involve normalization with Israel.

But on February 28, the leader of Hezbollah's parliamentary bloc Mohammad Raad lashed out at the U.S. mediator who, as a “cunning fox”, is claiming that drilling could reveal “a common gas reservoir”. Hezbollah considers the joint development of cross-border deposits as a form of normalization and has repeatedly voiced its absolute rejection of the idea. Raad then added “we will keep our gas buried in our waters until we can prevent the Israelis from laying their hand on even a drop of water that is ours”.

Is the Shiite party reconsidering its stance? Despite the aggressive tone, Raad's declaration does not deviate from the general “guidelines” outlined by the Secretary General in his interview: border demarcation is left to the State

(Raad repeated it in a second declaration on March 5), but normalization through joint development is rejected.

The President and Prime Minister agreed to establish a committee to examine the proposal before formulating an official Lebanese response. It was supposed to include members who are representative of the major political factions to give the Lebanese response an internal legitimacy. But their efforts were thwarted by the country's two main Shiite parties, Hezbollah and Amal. The first because it refuses to discuss issues related to borders with an entity it does not recognize, and the second for local political considerations, given the intense rivalry between President Aoun and the head of Amal, Speaker Nabih Berri, in particular on this topic. The President then settled for a smaller, technical committee that is currently studying Hochstein's proposal.



In parallel, the already discredited political class finds itself on the defensive in the face of growing criticism from the media, opposition groups and civil society for abandoning Line 29, which, they believe, has strong legal grounds. Its only line of defense has been that it would not settle for less than what the State officially considers as its border: Line 23.

According to local media reports, Hochstein's proposal is only marginally

better than the Hof Line and leaves a section of the Qana prospect on the other side of the border. If these reports are correct, can the authorities go through with it, without a Shiite backing, ahead of parliamentary elections next May?

Delek Drilling rebrands as NewMed Energy

Israel's Delek Drilling announced on February 22 that it changed its name to NewMed Energy to better reflect its goals and strategy. The company holds a 45.3% stake in Leviathan and a 30% stake in Cyprus' Aphrodite.

NewMed Energy also shared highlights of its upcoming strategy focusing on the maximization of the value of its existing assets and on expanding its activities to include alternative energies, while clarifying that these highlights are still at this point "general intentions and goals" and that "there is no certainty that they will be consummated".

The company sees that demand for natural gas is constantly rising, which justifies an expansion of Leviathan's output. The current Phase 1A of the development has an annual production capacity of 12 bcm. Moving to Phase 1B would add 9 bcm/year and may involve an expansion of the infrastructure for the transmission of natural gas to regional clients while considering the possibility of an FLNG solution to reach global markets.

NewMed will also promote the development plan of Cyprus' Aphrodite reservoir, which involves exporting the gas to Egypt for liquefaction. But the company adds that it intends to explore alternative plans, including the possibility of integrating the development of Aphrodite with the development of nearby assets, i.e., Leviathan.

In addition, the company is considering expanding its petroleum assets and has indicated that it is in advanced negotiations to acquire offshore exploration licenses in Morocco. According to Israeli business newspaper Globes, CEO Yossi Abu received a personal letter from King Mohamed VI, with an invitation to operate in the country.

NewMed is also looking to expand the scope of its activities to include alternative energies. It intends to launch a dedicated division and aspires to become a leader in the alternative energies industry. It is exploring the possibility of producing blue hydrogen from natural gas from the reservoirs in which it is a partner, in combination with carbon capture and storage, and is considering various possibilities to invest in renewable energy projects.

EMGF, BCG pursue cooperation on Forum's long-term strategy

The East Mediterranean Gas Forum (EMGF) and the Boston Consulting Group (BCG) announced on February 14 the commencement of phase two of the development of the Forum's long-term strategy. The signing ceremony was held in Cairo during the first day of the Egypt Petroleum Show (EGYPS 2022), in presence of Egypt's Petroleum Minister Tarek El Molla and his Cypriot, Israeli and Jordanian counterparts Natasa Pilides, Karine Elharrar and Saleh Al-Kharabsheh.

Phase one of the project, which was launched in September 2021, saw the development of the Forum's vision statement, mission statement, purpose, and core values. The work carried under this phase was approved during the Forum's sixth ministerial meeting held in Cairo on November 25, 2021.

According to the statement released by BCG and the EMGF, the second phase of the project will include translating the short- and medium-term targets into actionable initiatives. BCG will support the Forum in developing a strategic roadmap and best-practice operating model in line with the Forum's vision. BCG is expected to present a complete strategy by mid-2022.

→ For a deeper look at the EMGF, its internal working mechanisms, first efforts to assess prospects for monetization and the geopolitical dynamics behind its establishment see: [“The East Mediterranean Gas Forum: Regional Cooperation Amid Conflicting Interests”](#).

U.S., Egypt launch Climate Working Group

U.S. climate envoy John Kerry and Egyptian Foreign Minister Sameh Shoukry officially launched the U.S.-Egypt Climate Working Group in Cairo on February 21. Washington and Cairo agreed to establish the joint group during the strategic dialogue held between the two countries on November 8-9, 2021, to allow closer coordination on climate negotiations in the lead-up to COP27.

According to a press release published by the U.S. embassy in Cairo, the Working Group will have two tracks, one focusing on COP27, [which will be held in Sharm el-Sheikh next November](#), and one focusing on bilateral cooperation on a range of mitigation and adaptation-related issues.

IEC, Energroup sign MoU to develop hydrogen projects in Israel

State-owned energy company Israel Electric Corp (IEC) and UAE-based Energroup, which specializes in

sustainable investments, announced on March 6 that they signed a memorandum of understanding to develop green and blue hydrogen generation in Israel.

As part of the agreement, IEC and Energroup will consider collaborating on the sourcing, development, implementation and operation of green and blue hydrogen projects in Israel.

Green hydrogen is produced using electricity generated from renewable energy sources such as wind or solar, both of which face constraints in Israel: the potential for wind power is limited and the land area available for solar is relatively small (a fact that has prompted Israel and Jordan to consider [swapping desalinated water for solar energy in a trilateral deal with the UAE](#)).

Blue hydrogen is produced from natural gas and its carbon dioxide emissions are captured and stored. Countries in the region, in particular Israel and Egypt, have expressed interest in the potential of blue hydrogen as a low-carbon fuel, which could open the way for regional cooperation in the future.

Israel aims to reach zero greenhouse gas emissions by 2050 and has set a target of 30% renewable energy by 2030.