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The East Med Energy Report

Inside This Issue

A new momentum for East Med gas?

Europe was already facing an energy crisis before Russia's invasion of Ukraine, but Moscow's move has forced a rethink of energy policies at E.U. and country levels. The European Union, which imported 155 bcm of natural gas from Russia in 2021, now aims to cut its dependence on Russian gas by two-thirds this year, and to cease all fossil fuels imports "well before 2030". These are ambitious targets if we take into consideration that Russia accounts for around 45% of E.U. gas imports, 25% of oil imports and 45% of coal imports. The E.U. intends to do so by diversifying gas supplies, boosting the use of biomethane and renewable hydrogen, seeking greater energy efficiency, speeding up the roll-out of renewables, and accelerating the decarbonization of industry.

Whether these are attainable targets is beyond the scope of this note. As Europe scrambles to find alternative sources of natural gas, attention has turned to the resources of the Eastern Mediterranean, among other potential sources of supplies.

On the short term, the E.U. will focus among others on diversifying gas supplies by increasing LNG and pipeline imports from non-Russian suppliers. The Commission has listed Egypt and Israel among the countries it has engaged with in that regard.

In 2021, Egypt recorded a 10-year high in LNG exports, thanks to the resumption of operations at the Damietta terminal and to Israeli supplies.

But the ability to boost exports significantly on the short term is limited by two constraints: The overall capacity of Egypt's LNG terminals, which stands at 12.2 million mt/year, and, more importantly, the availability of surplus gas in Egypt for exports (amid uncertainties over future production levels) and the volume of gas that can be supplied from Israel for liquefaction.

Still, Egypt's LNG plants, which remain the only way to export East Med gas beyond the region, were running at full capacity in December, according to Tarek el Molla, the Egyptian Petroleum Minister. As we get closer to summer, shipments are expected to fall due to rising domestic consumption. But Egypt will be importing additional volumes of Israeli gas following the inauguration of a new export route via the Arab Gas Pipeline last month, which will sustain exports from its LNG plants. All in all, Egypt expects to export 4 million tons, or approximately 5.5 bcm, in the first half of 2022. This figure however was announced prior to the Russian invasion.

On the medium term, there may be a need to invest in expanding the region's export capacity. The most affordable option would be to invest in infrastructure to transport additional supplies to Egypt and to expand the capacity of Egypt's LNG plants, though it raises the issue of over-dependence on a single transit route via Egypt. An export route to and via Turkey is fraught with political challenges and requires a robust diplomatic effort but should not be ruled out. Leviathan's operator Chevron, along with partner NewMed Energy, are also considering an FLNG option for the next phase of the gas field's development, which would allow exporting additional volumes of East Med gas beyond the region. Other plans may be brought up in the future, depending on the results of drilling activities off Cyprus.

But current high prices are reviving interest in the region for projects whose economic and financial viability was always in doubt. These prices are misleading. Such large capital-intensive infrastructure projects are not based on volatile spot market prices that can range from record lows to record highs depending on circumstances. They require security of demand over the lifetime of the project and are largely based on long-term contracts with more stable prices offering suppliers and investors some protection against extreme price fluctuations.

More attention should turn instead on studying the evolving market dynamics to identify the most adequate export project, rather than reveling in current high spot market prices. The Ukraine crisis is exacerbating already tight gas and LNG markets, putting additional pressures on prices. Europe's shift to LNG to replace Russian gas will translate into an intense competition for available supplies, while little growth in export capacity is expected before the middle of the decade. This is likely to keep prices high over the next few years unless an economic slowdown affects demand.

For East Med gas producers to benefit from this window, they will have to rely on expanding access to existing infrastructure. More ambitious projects that take long years to go from inception to completion would have to compete with new LNG projects coming online in the second half of the decade in a market whose characteristics are particularly challenging to anticipate amid the current fog. Key uncertainties include the impact of decarbonization policies on gas demand growth, the impact of high prices on demand growth and the impact of the war on planned Russian export projects. Another uncertainty is the reaction to the Ukraine conflict over time. While the war is raging, it is hard to see how the situation between Europe and Russia is going to evolve and, therefore, its impact on energy markets. Will European policymakers and citizens remain mobilized in pursuing their newly announced objectives when the conflict dies down or if it evolves into a prolonged low-intensity confrontation?

For now, one thing is certain: even if Europe pursues policies to reduce dependence on fossil fuels, eliminating or reducing dependence on Russian gas will require investments, within Europe and beyond, in infrastructure to bring more non-Russian gas to the markets, and in exploration and production to bring new supplies to markets in the future. These are the kind of investments Europe generally dislikes. The countries of the Eastern Mediterranean are less critical of investments in the energy sector and embrace natural gas as a transition fuel. Europe could help by making sure new projects in the region are "transition-proof", as argued by energy expert Nikos Tsafos in this piece.

The Eastern Mediterranean is well positioned, geographically speaking, to contribute at its own level to Europe's energy needs, and it should aspire to attract a portion of these investments. The countries of the region could stand to gain if they offer investors the needed incentives, starting with the basics – stability and sound legal and regulatory frameworks – but also the ability to coordinate efforts at a regional level to bring projects costs down and boost competitiveness, with the overall aim of improving prospects for monetization.

Egypt: QatarEnergy to acquire 40% of Exxon's North Marakia

In a new sign of warming relations between Egypt and Qatar, QatarEnergy announced on March 29 that it entered into an agreement with ExxonMobil to acquire a 40% stake in the North Marakia offshore block in the Mediterranean Sea. This comes three months after the State-owned energy company made its entry into Egypt's upstream sector last December with the acquisition of a 17% stake in Blocks 3 and 4 in the Red Sea, both operated by Shell.

The announcement came on the same day a $5 billion Qatari investment package was announced, at a time Egypt is facing potentially destabilizing financial pressures due to the impact of the war in Ukraine. Cairo is seeking support from the IMF and has turned to its Arab Gulf partners for help. In addition to Qatari investments, Saudi Arabia deposited $5 billion in Egypt's Central Bank, the Saudi Public Investment Fund is looking to invest $10 billion in the Egyptian economy, and Abu Dhabi's ADQ bought $1.85 billion worth of stakes in five publicly traded Egyptian companies.

The North Marakia block was awarded to ExxonMobil in 2019. It is located approximately 10 km off Egypt's northern coast, in the Herodotus basin, in Egypt's underexplored and promising West Med acreage.

The agreement is subject to customary approvals by the government of Egypt. Once approved, QatarEnergy will expand its portfolio in the Eastern Mediterranean, which includes a 40% stake in two Exxon-operated blocks offshore Cyprus: the recently acquired Block 5, and Block 10, where the U.S. major has just completed an appraisal drilling at its 2019 Glaucus discovery confirming the presence of a gas reservoir with high quality characteristics.

Energean kicks off its growth drilling program in Israel

Energean kicked off its multiple drilling program in Israel in March with the Athena exploration well in Block 12 targeting a potential 21 bcm of gas. Drilling results are expected by early May. If a discovery is made, it will be tied to the Energean Power FPSO. The FPSO is expected in Israel in the second half of this year, and preparations are on track for first gas from Karish in Q3.

After Athena, the Stena IceMax drillship will proceed with drilling an appraisal well in Karish-Main. This will be followed by a development well during the summer at the 1.2 tcf Karish-North gas field, with first gas expected in the second half of 2023.

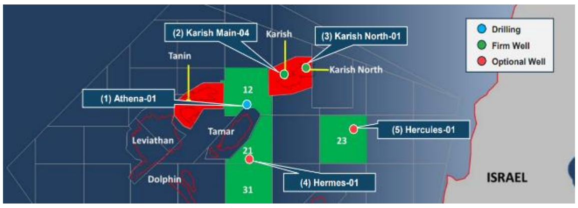
Following the drilling of these three firm wells, a decision will be made in Q2 2022 on whether to proceed with drilling two optional exploration wells later in the year: the first one, Hermes, in Block 31, and the second one, Hercules, in Block 23. If a discovery is made in Hermes or Hercules, the development would require new infrastructure.

In an interview with Upstream Online, CEO Mathios Rigas confirmed Energean is considering a potential farm down of its 100% interests in blocks 21, 31 (which could be merged) and in Block 23.

Energean also announced on March 14 that it signed a supply agreement with the Israel Electric Company (IEC), valid for an initial one-year period starting with the commencement of gas production in Karish, with an option to extend the deal. The gas price will be determined a month ahead, with volumes determined on a daily basis.

Also in March, Energean announced that it signed a preliminary agreement with Vitol for the marketing of its Karish liquids, while specifying that negotiations are ongoing to sign a binding SPA contract.

The Greek company appears to be undisturbed by Lebanese claims over large segments of its Karish project. The project lies a few kilometers south of Line 23, which is officially recognized by the Lebanese State as the southern limit of its Exclusive Economic Zone. But new claims put forward by the Lebanese negotiating team place Karish-North and parts of Karish-Main within the disputed area. Since then however, Lebanese officials have on multiple occasions clarified that these were maximalist claims and Beirut has so far refrained from amending the decree specifying the limits of its EEZ.



Source: Energean

Lebanon: Cabinet approves decentralized renewable energy draft law

Amid an acute energy crisis exacerbated by a financial crisis that has impacted fuel imports, the Lebanese government approved a draft law on decentralized renewable energy on March 23. The text provides a framework for the deployment of distributed renewable energy systems throughout the country using various mechanisms: virtual net-metering, peer-to-peer trading, off-site power purchase agreements, power wheeling etc.

The law is intended to encourage the generation of electricity from renewable sources on a small-scale – up to 10 MW – by the private sector, and the distribution of excess electricity to customers via the national grid in return for fees to compensate the State utility, Electricité du Liban (EDL), for using its transmission and distribution network.

The law was drafted by the Ministry of Energy, in cooperation with EDL and the Lebanese Center for Energy Conservation (LCEC), with the support of the European Bank for Reconstruction and Development (EBRD). The text will be submitted to Parliament for final approval.

ENI and Total to resume drilling in Cyprus within weeks?

In an interview with Kathimerini on March 10, Cyprus' Energy Minister Natasa Pilides revealed that the ENI-Total consortium is expected to drill two "exploratory wells" in 2022, with the first one expected "in the coming weeks".

The companies have yet to provide further details about their drilling program in Cyprus but an appraisal drilling in Block 6 has been in the works for years. In 2018, an exploration well drilled by ENI in Block 6 led to the discovery of Calypso and confirmed the extension of a "Zohr like" play in the Cypriot EEZ, according to the statement released by the Italian company. The statement did not include any estimates, but company officials entertained media reports claiming the field may hold 6 to 8 tcf of natural gas, though they admitted that the geology is complex and that an appraisal well was needed to determine the size of the discovery.

Calypso lies in the south-east corner of Block 6, right next to Block 7. In 2019, Cyprus put Block 7 on offer for companies holding licenses in adjacent blocks as there are "particular geological reasons related to the Calypso discovery". The block was later awarded to ENI and Total.

Initially, the companies were planning two exploration wells, one in Block 6 and one in Block 7, before their plans were put on hold due to the pandemic.

A Mediterranean Green Hydrogen Partnership in the works

E.U. Executive Vice-President Frans Timmermans visited Egypt on 10-11 April to take part in climate talks ahead of the UN Climate Change Conference COP27, which will be hosted by Egypt next November. Timmermans also discussed strengthening energy cooperation with Egyptian officials, as the E.U. is looking to boost its LNG imports.

According to a statement released following his meeting with Foreign Minister Sameh Shoukry, the two sides agreed to develop a Mediterranean Green Hydrogen Partnership, which focuses on "hydrogen trade between Europe, Africa, and the Gulf", without providing further details.

ENI, EGAS sign deal to boost Egypt's gas production and exports

ENI's COO Natural Resources, Guido Brusco and EGAS chairman Magdy Galal signed a framework agreement on April 13 to boost Egyptian gas production and LNG exports to Europe, and to Italy in particular.

The move comes as Europe is looking to cut its dependence on Russian gas. The two sides agreed to increase jointly operated gas activities and to identify opportunities to maximize short-term gas production.
The Italian company will step up its exploration efforts in its existing blocks and in the newly acquired acreage in

the Nile Delta, Eastern Mediterranean and Western Desert regions.

ENI, which holds a 50% stake in the Damietta LNG plant, hopes to export up to 3 bcm to Europe this year.
The terminal resumed operations in February last year after it was shut down in 2012 and exported approximately 3.9 bcm of LNG in 2021.