Issue 8 June 2022

The East Med Energy Report

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Egypt unveils its 2050 Climate Strategy

Cairo unveiled the outlines of its first national strategy to combat climate change in a conference held on May 19.
The strategy aligns with Egypt's updated Vision 2030 for sustainable development and is part of a wider effort by the government of Egypt to address the climate crisis as it prepares to host the COP27 summit in Sharm el Sheikh in November.

The strategy aims to support a green transition and consists of five main objectives:

- Achieving sustainable economic growth while reducing emissions in various sectors.
- Developing resilience and adaptability to mitigate the negative effects of climate change.
- Improving governance and managing climate action by defining the roles and responsibilities of various stakeholders in order to achieve the strategy's objectives, and reforming sectoral policies to mitigate the impacts of climate change and develop adaptability etc.
- Improving the financial infrastructure to support climate-related activities and encourage green financing.
- Supporting scientific research and the transfer of technology and knowledge in addition to raising awareness about climate change.

Prime Minister Mostafa Madbouli pointed out during the conference that although Egypt is responsible for only 0.6% of global carbon dioxide emissions, it counts among the countries that are most vulnerable to climate change.

Cairo plans to spend $211 billion on mitigation measures and another $113 billion on climate adaptation by 2050 in key sectors including energy, transport, agriculture, water and irrigation. Environment Minister Yasmine Fouad underscored the importance of ensuring various sources of funding including the State's budget and the private sector. She also acknowledged that the strategy will also rely on developed countries honoring their climate commitments towards developing countries.

During the COP26 conference in Glasgow last year, Egypt announced a more ambitious target to generate 42% of its electricity from renewable energy sources by 2030, five years ahead of its original plan.

Egypt does not see a contradiction between the green transition and the promotion of natural gas, which Cairo embraces as a transition fuel. Egyptian officials maintain that the transition to a greener future rests on three pillars: the promotion of natural gas as a transition fuel, maximizing the usage of renewable energy resources and promoting the use of hydrogen.
A national hydrogen strategy is also in the works and will likely be unveiled ahead of COP27. In March, Cairo signed an MoU with the European Bank for Reconstruction and Development (EBRD) to assess the prospects of developing a low carbon hydrogen economy. Egypt has grand ambitions to become a regional hydrogen hub and has adopted various legislation this year to encourage private investments in green hydrogen and green ammonia projects for domestic use and for exports.

EU signs gas deal with Egypt, Israel

The European Union, Egypt and Israel signed a trilateral Memorandum of Understanding on June 15, on the sidelines of a meeting of the East Mediterranean Gas Forum in Cairo. The MoU aims to ensure stable supplies of natural gas from Israel, Egypt and other sources in the Eastern Mediterranean to the EU via Egypt's LNG terminals. The agreement is part of Europe's efforts to secure alternatives to Russian gas following the invasion of Ukraine by Russia earlier this year.

The MoU is a framework agreement among political entities that will pave the way for gas companies to conclude commercial agreements at a later stage. The deal is valid for a period of three years with an automatic two-year extension.

At the moment, Egypt's LNG terminals – the Shell-operated Idku plant and the ENI-operated Damietta plant – are the only facilities that can export natural gas outside the region. The two terminals have a combined capacity of 12.2 million mt/year, which corresponds to roughly 17 bcm/year. In 2021, Egypt exported 6.8 mt of LNG (approximately 9 bcm). This represents a relatively modest volume compared to the 155 bcm imported by EU countries from Russia last year.

But, as acknowledged by the European Commissioner for Energy Kadri Simson, no individual exporter can replace the volumes of Russian gas. Simson added that the current geopolitical context provides opportunities for EU allies and counted the Eastern Mediterranean as one of the partner regions the EU is turning to. The EMGF, she said, is a natural place to discuss how the EU and East Med countries can strengthen their energy cooperation. Simson expects the newly created EU Energy Purchase Platform to quickly establish working relations with governmental authorities and gas industry players in the region, and again underscored the role of the EMGF by saying that the Forum's Gas Industry Advisory Board could be the right counterpart for the EU Energy Platform.

In 2021, Israel exported around 4 bcm of natural gas to Egypt via the EMG pipeline. The inauguration of a new export route via the Arab Gas Pipeline in March 2022 will allow Israel to export an additional 2.5 to 3 bcm this year, and potentially 4 bcm/year in the future. Israeli deliveries will help sustain LNG exports from Egypt's LNG plants amid uncertainties over Egyptian production levels in the future.

NewMed moving forward with Aphrodite plans?

Israel's NewMed Energy, one of the partners in the Chevron-operated Aphrodite gas field in Cyprus, announced in its Q1 2022 financial report released on May 23 that talks are underway with the Cypriot government to update the gas field's development plan.

As in its latest reports, the company restated that the partners are examining whether to connect Aphrodite to existing facilities in the region (i.e. LNG plants in Egypt) and/or to the development plans of nearby assets (i.e. the Leviathan gas field in Israel's EEZ), suggesting that no decision has been made yet.

But the company also announced that a decision was made "regarding engagement with a drillship" to drill a well in Aphrodite (dubbed A-3), which will serve as a production well at a later stage, although it did not disclose details of the timeline. In its 2021 annual report released in March, NewMed said that the government of Cyprus approved its request to postpone the drilling of the A-3 "appraisal/development well", which was supposed to be carried out by November 2021, for a period of 12 months, i.e., until November 2022.

Aphrodite was discovered in 2011 and is estimated to hold around 4 tcf of natural gas. A small portion of the field extends into the Yishai license in the Israeli EEZ, one of various obstacles that have complicated the development of the gas field.
Cyprus and Israel have held talks to reach a unitization agreement for over a decade but have yet to conclude a deal. In March 2021, the Cypriot and Israeli Energy ministers agreed to give the partners in Aphrodite and in Yishai a year to conduct direct negotiations, or to refer the matter to an international expert if needed, to reach an agreement on profit distribution, before the governments of the two countries step in again.
A year later, no agreement has been reached yet between the companies on both sides of the border.

Lebanon delays second bid round

Energy Minister Walid Fayad announced on June 15, shortly before the closing of the tender, that the deadline to place bids in Lebanon's second offshore licensing round was pushed back until December 15, 2022.

The tender was first launched in April 2019 and was initially set to close on January 31, 2020. It was extended multiple times, first at the request of international oil and gas companies and then due to the impact of the Covid-19 pandemic. Last November, Fayad extended the deadline until June 15, 2022, and took a number of measures to maximize interest in the tender. All unlicensed blocks were put on offer and the terms governing the tender were revised to simplify the process and encourage companies to participate in the bid round.

The decision to postpone the tender was taken based on the recommendation of the Lebanese Petroleum Administration to "allow additional companies not currently operating in Lebanese waters" to take part in the bid round in the hope to "create an acceptable level of competition". Only two out of the 10 Lebanese offshore blocks are licensed – Block 4, where an unsuccessful drilling was carried out in 2020, and Block 9. Both blocks are operated by Total, as part of a consortium also including Italy's ENI and Russia's Novatek.

Israel to launch fourth bid round

The Israeli Energy Ministry reversed its decision to give natural gas a "break" in 2022 to focus on renewable energies. Energy Minister Karine Elharrar instructed her team at the Ministry to prepare for the launch of the fourth offshore licensing round later this year, without disclosing details of the timeline.

The fourth bid round was first announced in 2021 but never officially launched. The Ministry's decision in December to freeze upstream activities pushed it back to an unspecified date but a global energy crisis put it back on the table.

Elharrar said in a press conference on May 30 that the crisis is an opportunity for Israel to export larger volumes of natural gas, as Europe seeks to diversify its energy supplies to reduce its reliance on Russian imports. The Ministry's director general Lior Schillat also pointed out that "it is hard to overstate the importance of natural gas in strengthening the ties between Israel and Egypt, and its effect on Israel's geopolitical position in the Middle East". Israel, Egypt and the European Commission signed an MoU on June 15 to step up gas deliveries to EU countries (See p.2).

Note that Israel has yet to announce the winner of the previous bid round held in 2020. The sole block on offer at the time was Block 72, located just outside the area disputed by Israel and Lebanon (or well within it according to the claims put forward by the Lebanese negotiating team which extend the disputed area southward).

The block received two bids, one submitted by Noble Energy (now Chevron) and its partner Delek (now NewMed Energy), and another one submitted by Energean. But an antitrust dispute has held up the award and the issue is still being examined by the Supreme Court.

Egypt: Shell acquires Exxon's North-East El-Amriya

Shell announced on May 18 that its subsidiary BG International has signed a farm out agreement with ExxonMobil to acquire a 100% stake in the North-East El-Amriya offshore block in the Mediterranean.

Exxon acquired the block in 2019, before adding the North Marakia block in Egypt's West Med to its portfolio in the same year, and the Star block adjacent to North-East El-Amriya in 2021. Exxon has since been looking to farm down its stake in the three Mediterranean blocks. In March, the U.S. major entered into an agreement with QatarEnergy which will see the Qatari company acquire a 40% stake in North Marakia once all approvals have been obtained.

Source: Egypt Upstream Gateway

Once the North-East El-Amriya transaction is approved, Shell will expand its presence in the Egyptian offshore, in line with its strategy to refocus its upstream business in Egypt on offshore assets in the Mediterranean and in the Red Sea, as it announced in 2021 after selling its onshore assets in the Western Desert. Last year, the company was awarded rights to operate two offshore blocks in the Herodotus Basin in Egypt's West Mediterranean – North Marina and North Cleopatra – after securing licenses for two offshore blocks in the Red Sea in 2019 – Block 3 and Block 4.

North-East El-Amriya is located next to the company's West Delta Deep Marine project. In 2020, Shell and partner Petronas also acquired two nearby acreages, North Sidi Gaber and North Al Fanar.

Lebanon extends first exploration period for blocks 4, 9

The government of Lebanon approved last month a request by the Total-led consortium to extend the first exploration period in its two licensed blocks, Block 4 and Block 9.

The companies requested a three-year extension in both blocks, but the government agreed to a one-year extension in Block 4 (from October 23, 2022, until October 22, 2023), and a 2.7-year extension in Block 9 (from October 23, 2022, until May 21, 2025).

According to the exploration and production agreements signed in January 2018 with the consortium, which also includes ENI and Novatek, the exploration phase is divided into a first exploration period of three years, and a second period of two years, both of which may be extended.

In January 2021, the first exploration period in both blocks was extended due to the impact of the Covid-19 pandemic and further to the issuance of a law allowing the suspension of legal, judicial and contractual deadlines in Lebanon.

In effect, the decision to extend the first exploration period allows the companies to defer their contractual commitments. Given the context, the Lebanese government may have considered that this would be a better outcome than to see them walk away, particularly before closing the second licensing round as this would reflect negatively on the attractiveness of the sector.

Still, the decision was criticized by those who accuse Total of caving to Israeli pressures after failing to drill in Block 9, a small part of which is disputed by Israel. Most notably, Hezbollah leader Hassan Nasrallah said in a televised speech on June 9 that the government's decision to give "Total and its partners more time was wrong". The French company was supposed to conduct an exploratory drilling within the block in the first exploration period but has repeatedly delayed its plans. Last December, following a meeting with company officials, Energy Minister Walid Fayad said that "in the absence of demarcation (…) the French are not ready to proceed with drilling". The Minister confirmed on June 12 that the company was willing to invest but backed down following Israeli threats.

Israel launches SWF

Israel's sovereign wealth fund became operational on June 1 after years of delays. The fund was set up in 2014 to manage the proceeds collected by the State from taxes on excess profits imposed on companies exploiting natural gas and other natural resources.

According to the law that established the fund, the institution managed by the Bank of Israel is to become operational after accumulating one billion shekels in revenues (approximately $300 million). It was initially expected to begin operations in 2018 but revenue streams were slower than expected. The fund has accumulated 1.14 billion shekels to date, and an additional 836 million is due to be injected soon.

It is not clear how the revenues will be invested, but 12 months after its launch, the fund will be able to distribute up to 3.5% of its proceeds on socio-economic development.
Another dimension to keep in mind is a potential cooperation with other SWFs and financial institutions in the region amid burgeoning relations between Israel and a number of Arab countries following the Abraham Accords.