

# The East Med Energy Report

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## Israel shoots down Hezbollah drones heading to Karish

Tensions along the disputed Lebanese-Israeli maritime border escalated on July 2 as Hezbollah launched three unarmed drones on a reconnaissance mission towards Energean's operations at the Karish gas field. The UAVs were intercepted "at a safe distance", according to the Israeli army, before reaching the installations. Commenting on the incident, the Greek company confirmed that its FPSO's "operational routine was not disturbed".

The move, which took Lebanese authorities by surprise, appears to contradict Hezbollah's repeatedly stated position that the party stands behind the State on all matters related to border delimitation.

But the State's position over where its border lies has been marred with confusion. Officially, the southern limit of Lebanon's Exclusive Economic Zone as defined by Decree 6433 ends in Point 23. This position places the Karish gas field outside the 860-km<sup>2</sup> disputed area.

However, when indirect negotiations between Lebanon and Israel kicked off in Naqoura in October 2020, the Lebanese negotiating team defended a maximalist position ending in Point 29, adding 1430 km<sup>2</sup> to the disputed area and cutting through the Karish gas field. Efforts to amend Decree 6433 to reflect new Lebanese claims have so far failed and exposed divisions among the

Lebanese political class. Since then, Lebanese officials have on multiple occasions clarified that these new claims were a maximalist position, implying that they were up for negotiations, and that the line ending in Point 23 represents the southern limit of Lebanon's EEZ. And yet, Lebanon addressed a letter to the United Nations in January 2022 disputing, in vague terms, that there is "an established Israeli economic zone, contrary to the claim that Israel has made regarding the Karish field" and objecting to any drilling in the disputed area.

The arrival of the Energean Power FPSO at its location in the Israeli EEZ in early June to deliver first gas from Karish in Q3 2022 was seen as an act of aggression in Lebanon, prompting Lebanese officials to invite the US mediator Amos Hochstein to resume his diplomatic efforts between the two countries.

During his previous visit in February, Hochstein submitted a proposal based on Line 23 to settle the dispute, which did not entirely satisfy Lebanese authorities as the suggested border cuts through the Qana prospect. Beirut prefers to avoid a demarcation that could result in having cross-border fields or prospects because the joint development of common deposits would be interpreted as a form of normalization with Israel.



Lebanon presented certain adjustments to Hochstein's proposal during his two-day visit to Beirut on 13-14 June following the arrival of the Energean Power FPSO at Karish. These adjustments place the entire Qana prospect within the Lebanese EEZ. Lebanese officials reportedly told the US mediator that they would drop claims to Karish in exchange for full control of the Qana prospect. Hochstein held a virtual meeting with the Israeli negotiating team on June 24 to brief them on the new ideas put forward by Lebanon.

There was a growing sense that progress has been made following this latest round of diplomatic activity, with various officials claiming that the next couple of months are decisive and enough to either reach a deal or terminate talks. It is in that context that the unarmed drones were launched on July 2. It was later revealed that a first UAV was launched three days earlier, on June 29, and was downed within the Lebanese EEZ.

Hezbollah's move serves multiple objectives:

- ❖ It is a reminder that Hezbollah is the ultimate decision-maker on this issue in Lebanon.
- ❖ By sending unarmed drones, Hezbollah wanted to test Israeli defenses while signaling its unwillingness to escalate at this stage.
- ❖ The armed party also wants to increase the stakes, not only for Energean, but also for potential investors as Israel prepares to launch a fourth offshore licensing round. A greater geopolitical risk translates into higher expenses and lower profits.

- ❖ Launching the UAVs was also meant for an internal audience: Hezbollah faced criticism for its perceived lenient stance on the maritime border dispute with Israel. The position was untenable as it undermined its resistance credentials and was hard to comprehend even for its supporters, prompting its leader Hassan Nasrallah to step up his warnings following the arrival of the FPSO. Bringing back footage from Karish would have been a major propaganda win. But for now, the party will have to settle with explaining that launching unarmed UAVs on a reconnaissance mission is only the first step in its gradual response strategy, which could go as far as threatening operations “[in Karish](#)” and “[beyond Karish](#)”.
- ❖ And finally, Hezbollah is also anticipating a potential solution in the coming months. While sources close to President Michel Aoun (including the [deputy speaker of Parliament](#) and the [Foreign Minister](#)) spoke of progress before the incident and saw positive signs following the latest round of diplomatic activity (without indulging in optimism), sources close to Hezbollah [pointed out](#) that any talk about progress was [unfounded](#). The party wants to show that diplomacy alone was not able to ensure a satisfactory outcome for Lebanon, and that its action prompted Israel to compromise.

### Chevron steps up its activities in Egypt

Chevron plans to drill its first well in Egypt in September, the company's CEO Mike Wirth said [on June 20](#) following a meeting with the Egyptian Petroleum Minister Tarek el Molla.

The US major holds operating stakes in four offshore blocks: North Sidi Barrani and North El Dabaa in Egypt's Western Mediterranean, Nargis off the Sinai Peninsula and Block 1 in the Red Sea.

Chevron also inherited non-operating stakes in two other West Med acreages following its acquisition of Noble Energy: North Marina and North Cleopatra.

According to media reports, the company's first exploration well in Egypt will likely be drilled in Nargis.

In addition, Chevron, which is also the operator of the Leviathan and Tamar gas fields in Israel and the yet-to be developed Aphrodite gas field in Cyprus, signed a memorandum of understanding with the Egyptian Natural Gas Holding Company (EGAS) to evaluate options to transport, import, liquefy, and export natural gas from the Eastern Mediterranean. This includes examining the needed infrastructure to facilitate the transport of East Med gas to Egypt and carrying out the necessary studies to produce low-carbon LNG. The two sides also agreed to form a negotiating committee to agree on future projects.

The deal comes a few days after Egypt, Israel and the European Union signed an MoU to boost East Med gas supplies to Europe via Egypt's LNG terminals as European countries scramble to find alternatives to Russian gas following Russia's invasion of Ukraine.

On the short to medium term, the bulk of new supplies will come from Israel. Last year, Israel exported around 4 bcm of natural gas to Egypt. The EMG pipeline connecting Ashkelon in Israel and Al-Arish in Egypt has a planned capacity of around 7 bcm per year. But the capacity of the Israeli transmission system connected to the EMG pipeline is unable to accommodate such volumes.

A new offshore pipeline between Ashdod and Ashkelon is in the works and would allow to bypass the bottleneck when gas starts to flow by April 2023.

In the meantime, a [new export route via Jordan](#) was inaugurated earlier this year. Exports through this new route are expected to stand at 2.5-3 bcm in 2022 and could potentially reach 4 bcm/year in the future.

Two other pipeline projects are under consideration to boost Israeli exports to Egypt: an onshore pipeline through the Sinai Peninsula and an offshore pipeline linking the Leviathan gas field to the Idku LNG plant. [Chevron appears to be favoring the first option](#), at least for the current phase of the field's development. The onshore pipeline is "currently in design", according to Chevron's partner NewMed Energy, and is "expected to transmit between 3 and 6 BCM per year" to Egypt.

## Energean to drill two more wells in Israel

Energean announced on June 20 that it has extended its growth drilling programme in Israel by exercising its option to drill two more wells with Stena Drilling's Stena IceMAX drillship.

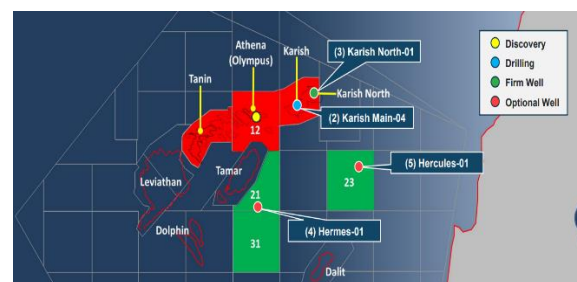
The Greek company kicked off its multiple drilling programme in March with the Athena exploration well in Block 12 where it hit a "commercial gas discovery" that may hold 8 bcm of recoverable volumes. Although modest compared to the 21 bcm initially targeted, Energean believes the discovery de-risks an additional 50 bcm of prospective resources across what it now calls the "Olympus Area".

The Stena IceMAX proceeded with the drilling of an appraisal well in Karish-Main, where Energean aimed to further

appraise the gas volumes in the flanks of the structure, and reduce uncertainties associated with the liquid content in the field's central fault blocks.

The drillship is now on location to drill its third well – a development well at the 1.2 tcf Karish-North gas field, where first gas is expected in the second half of 2023.

The first of the two additional wells in Energean's extended programme will target the Hermes prospect in Block 31 in August 2022. The second well was previously expected to target the Hercules prospect in Block 23, but the Greek company now says the location is "largely contingent on the results of the Hermes well".



Source: Energean

## NewMed eyeing 2023 for Leviathan FLNG decision

Yossi Abu, CEO of NewMed Energy one of the partners in the Chevron-operated Leviathan gas field, told Israeli newspaper [Israel Hayom](#) that the partners aim to "make the investment decision (to order an FLNG vessel) at the end of 2023". Abu expects the investment to stand at around \$3 billion.

The Leviathan partners have been considering an FLNG option for about a decade. A first concrete step was taken in 2019 with the signing of separate interim agreements with Golar LNG and Exmar to provide studies for the construction of an FLNG facility with a capacity ranging between 2.5 and 5 million tons of LNG per year. In 2021,

Delek Drilling – now NewMed Energy – announced that the Leviathan partners decided not to extend the agreement with Golar and to pursue collaboration with Exmar.

FLNG is one of the options considered for phase 1B of Leviathan's development alongside pipeline exports to neighboring countries, primarily to Egypt. However, the Leviathan partners have yet to take a decision, with some considering that the apparent preference for floating LNG may be in part designed to [pressure Cairo on terms](#).

### **Egypt: BP awarded North King Mariout**

BP announced on June 28 that it was awarded exploration rights in the North King Mariout block in the Mediterranean Sea following a limited bid round organized by the Egyptian Natural Gas Holding Company in 2021.

BP is strengthening its presence in an area thought to be prospective and where new discoveries could be developed using existing infrastructure. The 2582-km<sup>2</sup> North King Mariout block is located in the Nile Delta basin, 20 km west of the BP-operated Raven gas field, which came online last year as part of the West Nile Delta project.

This latest acquisition is in line with the company's strategy in Egypt focusing on the Nile Delta basin and in particular on assets that are close to its existing facilities, which can be leveraged to allow the development of even modest discoveries. According to Karim Alaa, BP's Regional President for North Africa, the company intends to conduct 3D seismic surveys and to drill an exploratory well in the awarded block.

### **Lebanon-Egypt gas deal awaits WB, US green light**

Egypt signed an agreement with Lebanon and Syria on June 21 to [supply Lebanon with 650mn m<sup>3</sup>/year of natural gas via Syria](#). The deal involves transporting gas through the Arab Gas Pipeline via Jordan and Syria to Lebanon's Deir Ammar power plant. This would support the generation of around 450 MW of electricity (the equivalent of four hours of power supply) at a reduced price compared to the current liquid fuel-based generation.

But the project still needs to overcome two challenges before gas could flow through the pipeline: (i) securing a deal with the World Bank to provide funding, which hinges on reforming the electricity sector, and (ii) receiving the needed guarantees from the US that the parties involved in the deal will not be subject to sanctions. To avoid triggering US-imposed sanctions on Syria, Damascus will be receiving in-kind remuneration for transit services and will not be paid in cash.

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