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The East Med Energy Report

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Exxon to resume drilling in Cyprus amid rising tensions

ExxonMobil is scheduled to drill an appraisal well at its Glaucus gas discovery in Block 10 by the end of this month or early December at the latest. Back in February 2019, ExxonMobil and partner Qatar Petroleum (now QatarEnergy) announced a discovery following the drilling of the Glaucus-1 well, with an estimated 5-8 tcf of natural gas (142-227 bcm). The appraisal drilling will bring a clearer picture of the reservoir's resource potential. Though it is still early to talk about monetization, Cypriot Energy Minister Natasa Pilides said that transferring the gas by pipeline to Egypt's LNG plants is currently the "most likely option".

The resumption of offshore activity in Cyprus after a halt is already being met with Turkish and Turkish Cypriot opposition. The halt was largely due to the impact of the Covid-19 pandemic on exploration budgets, but it also served to wind down the tensions that flared during the 2018-2020 period. Since none of the root causes of the crisis have been addressed, the resumption of offshore activity in Cyprus will stir up tensions again and could potentially lead to direct confrontations.

In early October, Nautical Geo, a vessel carrying out research for the EastMed pipeline project in an area between Cyprus and the Greek island of Crete was sent away by the Turkish navy for violating what Ankara perceives as its continental shelf.

Later in the month, the foreign ministry of the breakaway state of Northern Cyprus has released a statement strongly opposing the vessel's planned activities south of the island of Cyprus in an area which, it says, overlaps with its licensed blocks.
Exxon's drilling program in Block 10, which could include an exploratory drilling in 2022, will be conducted in an area that is neither claimed by Turkey nor licensed by the Turkish Cypriots. While it will be strongly denounced by the two sides (and could lead to countermeasures elsewhere), the likelihood of a direct confrontation threatening the operations of the US-Qatari consortium is not particularly high. However, their reaction might not be entirely indicative of how they would react to drillings elsewhere in the Cypriot EEZ. In the first half of 2022, ENI and Total are expected to drill in their licensed blocks, including an appraisal well at ENI's Calypso discovery in Block 6. The companies have yet to provide a more precise timeframe. The February 2018 incident, when the Turkish navy prevented an ENI-leased drillship from reaching its drilling target in Block 3, is still on everybody's mind. ENI's drilling program in Cyprus has been on hold since then.
Cyprus is not in a position to deter Turkey from carrying out provocative actions in its EEZ. While looking to boost its own capabilities, Nicosia bets on multilateralism.
On November 11, the Council of the EU adopted a decision extending the sanctions regime against unauthorized drilling activities in the Eastern Mediterranean for one year, until November 12, 2022. The framework allows the EU to impose targeted sanctions on persons or entities carrying out unauthorized drilling activities in the Eastern Mediterranean. Two individuals have been placed on the sanctions list since the framework was adopted in 2019.

Multilateral training exercises designed to boost capabilities and foster regional cooperation are another aspect of this approach.
On November 3, Cyprus organized the 8th edition of NEMESIS, a multinational exercise involving the participation this year of aeronautical units and personnel from Cyprus, Egypt, Greece, France, Israel, Italy, the United Kingdom and the U.S. The exercise was meant to develop safety and security procedures and boost Cyprus' ability to respond to emergency situations. It was conducted off the southern Cypriot coast, in areas licensed to ENI and Total, as a way to affirm Cyprus' sovereign rights in this space, where the Turkish Cypriots have awarded exploratory rights to Turkey's state-owned energy company Turkish Petroleum Company (TPAO).

Israeli-Emirati 'land bridge' deal at risk due to environmental concerns

Israel's Environmental Protection Ministry announced on November 3 that it would refuse to grant the Europe Asia Pipeline Co. (formerly the Eilat Ashkelon Pipeline Company) permits to increase the volume of oil it is allowed to transport and store in Eilat – which currently stands at two million tons of oil per year – over environmental concerns.
EAPC plans to appeal the decision, which, if confirmed, would block a deal with UAE's Med-Red Land Bridge to transport 14 million tons of oil and petroleum products per year between Eilat on the Gulf of Aqaba and Ashkelon on the Mediterranean. The 10-year deal was announced in October 2020, in the aftermath of the Abraham Accords. If the project is implemented, it would allow to bypass the Suez Canal, thus saving the parties involved time and money. The project would have an opposite impact on Egypt as these oil shipments now flow through the Suez Canal to reach European markets,

contributing to the revenues earned by the Canal Authority from transit tolls.
EAPC claims that cancelling the deal would negatively impact Israeli-Emirati relations and the Israeli media is reporting that the Emiratis are discussing an alternative project with Egypt, involving the construction of a pipeline linking Taba to El-Arish. But a senior official at the UAE embassy in Israel was quoted as saying that the UAE government is not a party to the agreement and scrapping it would not impact bilateral relations.

Lebanon to import gas from Egypt, electricity from Jordan

Plans are underway to pave the way for Lebanon to import natural gas from Egypt and electricity from Jordan via Syria by early 2022.
Lebanon is facing an unprecedented energy crisis fueled by a severe financial crisis that has crippled imports. The projects would bring rapid relief to the electricity sector until a long-awaited and much-needed overhaul of the sector can be carried out.
These projects have been repeatedly brought up over the years, particularly in discussions between Lebanon and international financial institutions, but were faced with a host of political, technical, and financial obstacles. The context appears to be more favorable today, though a series of challenges still stand in the way.
Implementing these projects requires clarity over their exemption from US-imposed sanctions on Syria.
Since they fall under the humanitarian category, no sanctions waiver would be required, according to Under Secretary of State for Political Affairs Victoria Nuland. Syria will also be receiving in-kind remuneration for transit services and will not be paid in cash. It is unclear, however, whether this workaround would shield these projects from congressional scrutiny.

Importing electricity from Jordan:

Negotiators have agreed on an annual deal involving the import of up to 250MW of electricity from Jordan. The World Bank has agreed to finance the agreement, which is estimated at around \$200m, via a loan to Lebanon. The deal has not been signed yet, but it appears Jordan will supply power at \$11.2 cents per kilowatt hour, while the cost of transferring it via Syria has been set at \$0.8 cents kWh. The state of the network in Syria, particularly in the southern part of the country, requires significant repairs. It is unclear when it will become operational, but work is in progress, and the Syrian side expects it to be completed by the end of this year.

Importing natural gas from Egypt:

Negotiations are underway for the import of at least 600 million cubic meters of natural gas via the Arab Gas Pipeline (AGP) to feed the Deir Ammar power plant, knowing that Lebanon still hopes to increase the volume.
A final agreement has yet to be reached between the two sides.
When it comes to the state of the infrastructure, the Syrian segment of the pipeline is ready to transport the gas according to Syria's Energy Minister. As for the Lebanese segment, repairs and maintenance work will be needed, and will be carried out by TGS. The company expects work to be completed within six weeks once the contract is signed and spare parts are delivered. But TGS has already signaled to the Lebanese Ministry of Energy that the contract that is currently being negotiated by both sides does not cover the cost of spare parts. That detail is holding up the signature of the contract.
Finally, the origin of the gas could present another challenge. Given how the AGP is currently being used in Jordan, Egyptian gas would likely have

to be swapped with gas sourced from an Israeli offshore field to allow it to be transported via the pipeline.

This raises questions whether Lebanese or Syrian authorities would accept to go through with the agreement even though all dealings will be conducted with the Egyptian side.

To fend off any criticism that could potentially derail the deal, Lebanese authorities announced early on that the gas transported via the pipeline will be swapped in Syria, and that Lebanon would ultimately be receiving volumes of Syrian gas.

The Lebanese Ministry of Energy is still seeking reassurances from the Syrian side that Syria is indeed able to provide "a hundred percent" of the needed volumes.

New pipeline under consideration to boost Israeli gas exports to Egypt

Israel is considering laying out a new onshore pipeline through the Sinai Peninsula to boost gas deliveries to Egypt, according to a Reuters report (Oct. 21, 2021). The pipeline is estimated to cost around $200 million and could be operational within two years. The news came amid uncertainty over the sustainability of Egyptian LNG exports in the coming years. MEES has learned that Egypt is putting a cap on its LNG exports and is prioritizing exports to regional markets (Sept. 24, 2021), while imports from Israel could support exports from its LNG plants (Oct. 22, 2021).

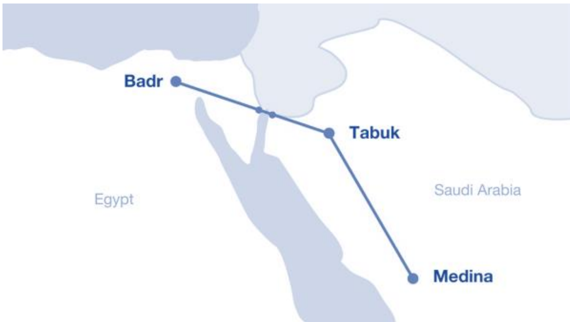
Another project under consideration is the construction of an offshore pipeline linking the Leviathan gas field to Egypt's Idku LNG plant, which would pave the way for boosting production from Leviathan.

Egypt, Saudi move to implement electricity interconnection project

Egypt and Saudi are moving ahead with a project, now estimated at $1.8 billion, to connect their national power grids.

Once completed, the project will allow both countries to exchange up to 3 GW of electricity at peak times along 1350 km of overhead power lines and a 22-km subsea cable across the Red Sea.

The first phase of the project with a 1.5 GW capacity will be operational in late 2024, and the project is expected to be completed by mid-2025.



Source: Hitachi Energy

A consortium comprising Hitachi ABB Power Grids (now renamed Hitachi Energy) and Orascom Construction was awarded a contract by the Egyptian Electricity Transmission Company on October 5 to execute the project in Egypt. Another Hitachi ABB Power Grids-led consortium also including the Saudi Services for Electro Mechanic Works will execute the work in Saudi Arabia.

The project will give Egypt access to the interconnected power grids of GCC states. It will also give Saudi Arabia access to power grids in North Africa, and possibly beyond, in Europe and the Eastern Mediterranean, since Egypt, which has a large surplus of electricity generation, is also planning electrical interconnections with Cyprus and Greece. The deal is a key step towards Egypt's ambition to become a regional energy hub.

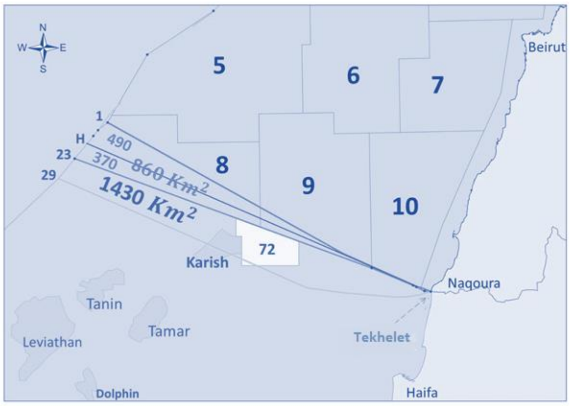
New impetus to resolve the maritime border dispute between Lebanon and Israel?

Stalled negotiations to resolve the maritime border dispute received a boost with the appointment of a new U.S. mediator.

Amos Hochstein, the State Department's Senior Advisor for Energy Security who succeeded Ambassador John Desrocher in this role, is thoroughly familiar with the subject having led mediation efforts between the two countries during the second Obama administration. He is aiming for an agreement over the border dispute by spring 2022.

Hochstein arrived in Beirut on October 19 on his first visit since his appointment. The purpose of the visit was to discuss solutions to Lebanon's energy crisis – as the U.S. is looking to facilitate the import of natural gas from Egypt and electricity from Jordan – and a resumption of efforts to resolve the maritime border dispute. He visited Israel on November 7-8 and is expected back in Beirut later in the month.

Hochstein appears to favor shuttle diplomacy over indirect talks in Naqoura at this stage. Negotiations in Naqoura were put on hold over disagreements on what constitutes the disputed area after the Lebanese delegation introduced a new line ending in Point 29 that is different from the one officially recognized by the Lebanese State, thereby adding some 1430 km^2 to the original ≈860 km^2 disputed area.



Despite a vigorous media campaign, the decree defining the limits of the Lebanese EEZ has not been amended to reflect new demands, and the line ending in Point 23 remains the one that is officially recognized by Lebanon. It became clear over the past few months that there is no consensus to amend the decree among the Lebanese political class. Line 29 is a maximalist claim, as acknowledged by the Lebanese delegation, which implies it is not an end in itself but a line that is up for negotiations. This was confirmed by the Lebanese Foreign Minister in a TV interview on October 24.

Of all the sticking points between the Lebanese and the Israelis, the one that could impact the final boundary the most is the effect to give to the Israeli islet of Tekhelet. The Hof line that was suggested by the first U.S. mediator, leaving Lebanon roughly 55% of the originally disputed area and Israel the remaining 45%, gives the islet full effect.

This line is currently rejected by Lebanon. The line defended by the Lebanese negotiating team, Line 29, denies it any effect. But it seems Lebanon does not entirely rule out giving Tekhelet a partial effect.

The official Line 23 already takes it into consideration.

It appears then that a final solution is going to depend on the weight both sides would eventually agree to give to the islet, provided there is a political will to resolve the dispute.

In the meantime, Energean is proceeding with the development of its Karish project and is on track for first gas by mid-2022.

As part of its 2022-2023 growth drilling programme offshore Israel, the Greek company has secured a drilling rig for its (up to) five-well drilling campaign, starting with the Athena exploration well in Block 12 in 1Q 2022, to be followed by a development well in Karish-North and an appraisal well at Karish-Main.

Developments related to the Karish project have attracted attention in Lebanon since new claims put forward by the Lebanese negotiating team put Karish-North and parts of Karish-Main within the disputed area (though these claims have not been officially adopted by the Lebanese State).

On the Lebanese side of the border, the Total-led consortium is expected to drill an exploration well in Block 9 in 2022 but has yet to provide further details on its intentions fueling rumors that it might be reconsidering its plans in Lebanon.

Mubadala expands Eastern Mediterranean portfolio

Abu Dhabi's Mubadala signed a binding deal on September 2 to acquire Delek Drilling's 22% stake in Israel's Tamar gas field. The $1.025 billion dollar agreement is subject to a number of conditions, including regulatory approvals. It will ensure Delek's exit from the Chevron-operated Tamar field by the end of 2021 in accordance with the Gas Framework to promote competition in Israel's gas sector.

Once closed, the deal will expand Mubadala's portfolio in the Eastern Mediterranean, which includes a 10% stake in the Shorouk concession where the giant Zohr gas field was discovered, and a 20% stake in the Nour concession in Egypt, both acquired in 2018.

This is the biggest deal since the signing of the Abraham Accords in 2020. It carries a commercial and geostrategic value and may signal more such deals to come. Increased coordination and diplomatic activity between GCC countries and a number of Eastern Mediterranean countries over the past year could translate into additional investments in the energy field and beyond.