Analysis With Exports to Jordan and Egypt, Israel Becoming Key Player in Mideast Gas Market

The days of Israel as an isolated energy market will soon be over, but obstacles remain.

Pipes carrying liquefied natural gas on a tanker in the Mediterranean, 10 kilometers off the shore of Hadera, January 22, 2014\ Baz Ratner/ REUTERS

- **Egypt to begin importing Israeli gas in 2019**
- **Noble Energy, Israeli tycoon buying 39% stake in Egyptian gas pipeline company**
- **Israel selling gas to Egypt: Mark of the real New Middle East**

Come 2019, Israel will have turned itself into a regional gas player – and a few years after that may even be exporting natural gas to Europe.

The year 2019 is when the government company Israel Natural Gas Line will have finished laying pipeline to Jordan and when the first Israeli gas to be delivered over the ENG pipeline will arrive in Egypt. The days of Israel as an isolated energy market will be over.

Meanwhile, a source at Israel's Energy Ministry told TheMarker on Wednesday that talks to lay a pipeline running from Israel to Cyprus and then on to Greece and Italy are expected to wind up by the end of the year with a signed agreement.

>> Opinion: Israel selling gas to Egypt: mark of the real new Middle East

The projected 2,100-kilometer EastMed Pipeline Project – an ambitious project that will cost an estimated at more than $7billion and involve huge technical challenges – aims to deliver Israeli and Cypriot gas to Europe. The undersea pipeline will have the capacity to carry up to 20 billion cubic meters (706 billion cubic feet) of gas yearly.

Meanwhile, the Egyptian component of the emerging regional network took a major step forward last week when three companies – Noble Energy of the U.S., Israel's Delek Drilling and the Egyptian East Gas Company – agreed to take a 39% stake in the now idle EMG pipeline for $518 million. Originally designed to export Egyptian gas to Israel, the three now plan to use it to export Israeli gas from the Tamar and Leviathan fields to Egypt.

They have a 10-year, $15 billion deal to sell gas to the Egyptian company Dolphinus Holdings for use by big Egyptian users, such as factories. Going forward, the Tamar and Leviathan partners hope to win more contracts, for example by foreign companies that operate now idle liquefied natural gas plants in Egypt that would then re-export the gas to Europe.

"It's a smart deal that will create a direct export channel from Tamar and Leviathan to Egypt already within the next several months," said Amit Mor, CEO of the energy consulting firm Eco Energy.

Two issues, however, remain.

The first is whether the EMG pipeline, will be hit by the same kind of terrorist attacks that led to its being repeatedly put out of commission before Cairo cancelled the export deal altogether in 2012. The pipeline runs partly through North Sinai, where Egyptian security forces are battling ISIS-affiliated groups.

In response, Mor noted that the pipeline will be better protected by Egyptian troops than in the past, when the country was going through the convulsions of the Arab Spring. In addition, he said, it should be relatively easy to make repairs in case of an attack quickly.

The second issue is how committed Egypt is to importing Israeli gas. Several days ago, Egyptian Natural Gas Holding Company said the country had no need for imported Israeli gas, especially after the discovery of vast reserves in the offshore Zohr field, which started producing earlier this year.

However, Egypt has also signaled it wants to transform itself into a regional energy hub. That would not only mean taking Israeli has for re-export through the

LNG plants but also gas from Cyprus. The two countries signed an agreement September 20 paving the way for a sub-sea pipeline to carry Cypriot natural gas to Egypt for re-export.

“The fact that Delek and Noble are ready to invest such a significant amount in the EMG deal is a sign that the Egyptian export deal will happen,” said Chen Herzog, chief economist at BDO Consulting Israel and at energy export.

For ordinary Israelis, the main concern is how gas exports will affect the domestic market, where the Leviathan and Tamar partners have a lock hold and state-owned Israel Electric Corporation – their biggest customers – pays a steep $6 per million British thermal units for gas.

Energy experts says they think the effect will be positive because Israel can’t on the one hand Israeli energy companies export gas at noncompetitive high prices but on the other can’t be seen charging foreign customers less than local ones. “Delek won’t be able to sell Egypt cheap gas and Israel more expensive gas,” said one expert, who asked not to be identified.

IEC, they said, is likely to re-open its contracts before the 2021 deadline to negotiate new terms. One benchmark could be the $4 per million BTU prices that Energean , the Greek company developing then smaller Karish and Tanin fields, is selling tis gas for.

One option for creating more competition in Israel market would revive the deal to import Egyptian gas to Israel via the EMG pipeline or less probably through the Pan-Arab pipeline that links Egypt and Jordan. The latter option would involve a longer route and higher costs, but Mor said that if the Egyptian and Israeli governments want to use the EMG pipeline to export Egyptian gas to Israel, the owners would have no choice but to agree.

As to the EastMed project, talks are underway in Israel this week between the Energy Ministry directors general of the countries involved as well as European Union officials. They will continue in Europe.

The Israeli Energy Ministry source, who asked not to be identified, said the talks were down to the final legal issues. Among outstanding issues is Israel’s demand that if Lebanon, in the early stages of exploring for gas off its coast, wants to join the pipeline, Israel has to approve it.

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