Israeli gas deliveries will boost Egypt’s LNG ambitions, but East Med gas export plans face an uphill battle

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TAKEAWAYS:

Israel’s launch of first pipeline gas deliveries from the Leviathan field to Egypt, while politically momentous, has less economic justification.
The move will strengthen Egypt’s LNG plans, but competition among East Med gas export ambitions will persist with no project expected to emerge a clear winner at this time.
The viability of any regional gas export project remains in question due to concerns about project economics, geopolitical tensions, and shifting market, climate and demand contexts.

ANALYSIS:

On Jan 15 partners at Israel’s Leviathan commenced gas deliveries to Egypt’s Dolphinus Holdings. This marks the start of a nearly $20bn supply deal to ship 85bn cu metres of gas over 15 years using the idled EMG pipeline, and is the biggest cooperation deal between the countries since the peace treaty was signed in 1979.

The deal will boost already improving conditions for Egypt LNG exports, but is still far from a clear, economic victory. Myriad market and geopolitical conditions will continue to complicate long-term export prospects, not only for Egypt LNG but for other proposed East Med gas export projects awaiting the green light.

Piping gas to Egypt for liquefaction was one of the few, immediately realistic options for Israel given Egypt’s existing gas infrastructure and underutilized or idled LNG terminals with over 12m tonnes per annum capacity. Egypt’s gas outlook has improved in recent years, aided by expansion at Zohr gas field and its return to net gas exporter status, sending gas by pipe regionally, and by LNG to Europe and beyond. With this change, Egypt is angling to establish itself as an East Med gas hub.

Yet this comes at a difficult time of rapidly expanding global LNG capacity and correspondingly depressed prices. Average LNG prices from EGAS have reportedly been in the $7-8.50 per million Btu range, markedly higher than other sources of pipeline and LNG supply to Europe. Egypt recently chose to shut in some production over accepting these lower prices.

Steep gas market competition impacts regional gas ambitions beyond Egyptian LNG. Following key finds in Egypt, Cyprus and Israel, export proposals have emerged from an estimated $6bn EastMed pipeline (Israel via Cyprus and Crete to Greece) to LNG options, including Cyprus and an expansion of Egyptian capacity. The East Mediterranean Gas Forum (EMGF) was founded in an effort to advance these interests in a well-supplied market. Rapid growth in global LNG capacity, and vast existing pipeline gas options to Europe – including an extensive system of Russian pipelines, Norwegian, Algerian, and now Azerbaijani via the Southern Gas Corridor – pose serious competitive challenges to East Med ambitions and threaten to delay or derail projects awaiting approvals or expansions.

Geopolitics have further complicated East Med projects. While pipeline exports out of the East Med could provide the most cost competitive option for regional gas supplies, historical tensions make it challenging to run pipelines through contiguous countries and waterways, and a number of offshore fields rest in disputed territories around Cyprus and between Israel and Lebanon. These disputes extend to the EMGF, which excluded Turkey, Lebanon and Syria from participation. Turkey in particular has opposed alternative EastMed gas export projects, preferring to receive the gas through its own growing pipeline network for onward shipment to Europe.

Finally, growing demands for oil and gas industry decarbonisation, and the EU’s Green Deal for a climate neutral Europe, are likely to put downward pressure on EU gas demand in years ahead. This will make it harder to justify high price tags for greenfield gas projects targeting EU exports. Barring options to improve regional gas interconnectivity, use of existing Egyptian LNG export capacity for now presents one of the best options for regional players.

