

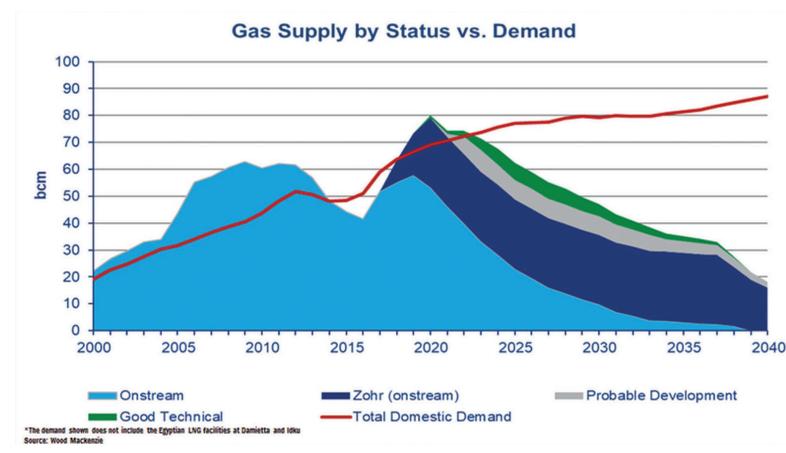
# Egyptian gas deal provides good energies for the region

• By AMIR FOSTER

On the fringes of the UN Assembly held in September, Prime Minister Benjamin Netanyahu met with Egyptian President Abdel Fattah el-Sisi. This second meeting between the leaders of the countries in recent months (it has recently been revealed that there was a secret meeting between the two leaders in Cairo) is further evidence of the strengthening of relations between the countries, which share a wide range of joint security, political, and economic interests.

In the nature of things, the Israeli public is more aware of the security aspects of the common Israeli-Egyptian interests, including the attempt to reach an arrangement in the Gaza Strip, but under the surface there is another aspect that does not get the appropriate attention – strategic cooperation between the countries in the field of energy.

Energy cooperation between the countries has already led to results in the field. Toward the end of September, Delek Drilling and Noble Energy reported agreements to purchase a stake in the EMG (Eastern Mediterranean Gas Company) pipeline to advance the export of gas to Egypt. This is not just “another deal,” but a dramatic development that changes the existing situation, providing the physical infrastructure for realizing the gas export deal with Egypt signed in February this year. In the framework of this deal, the parties agreed on the possibility of also exporting additional quantities



of gas to Egypt through Aqaba, by means of the Arab gas pipeline – a gas pipeline that enables gas to flow through Jordan to Egypt, and it was decided that further options for exporting Israeli gas to Egypt would be examined.

The gas export deal between the Tamar and Leviathan gas partnerships was signed in February this year. This is an agreement to export natural gas on a scale of 64 BCM (billion cubic meters) and \$15 billion to the local Egyptian market over a period of 10 years. It is Israel’s first significant economic agreement with Egypt since the peace agreement was signed in 1979, and a dramatic step up in the political and economic relations between the countries.

This agreement joins two others signed by the Israeli gas companies with another neighboring Arab country – Jordan: a deal to export gas from the Tamar reservoir to the Jordanian Dead Sea plants, and the huge deal to sell natural gas from the Leviathan reservoir to

the Jordanian electricity corporation. These agreements emphasize another important element in the web of strategic relations with its neighbors – the export of natural gas.

Egypt’s need for the Israeli gas is clear, after the Egyptian energy sector suffered over the past decade one of the most severe crises in its history. The Egyptian crisis was due to the disastrous combination of a lengthy freeze in development of the Egyptian gas sector due to the inferior commercial conditions that prevailed for a long time, including low gas prices that did not allow the development of new reservoirs, and the internal instability resulting from revolutions in the country.

In recent years, Sisi has led wide-ranging reforms in the Egyptian gas sector, which have resulted in improved commercial conditions, among other things, by means of a significant increase in natural gas prices, and a process of liberalization in the market. This

came alongside a significant reduction of energy subsidies in the country, and the diversion of demand for expensive products like petroleum to natural gas, to reduce subsidies for energy products on a scale of tens of billions of dollars in the past decade. Sisi's actions, together with stabilization of the regime in Egypt, have led to renewed exploration and development of gas fields in the country, reaching a high point with the discovery of the huge Zohr reservoir.

At the same time, despite the discovery of gas in Egypt since Sisi came to power, the output of the country's old gas reservoirs continues to decline, and the increasing demand for natural gas, for electricity generation and for the many industrial consumers in a country of almost 100 million residents, has led to the need to find additional long-term sources of supply, and this is where Israel comes into the picture.

JUST THIS YEAR, a mega project has been completed in Egypt to set up three huge power stations using natural gas in a combined cycle. According to Siemens, the company that built them, these are the largest power stations of this kind in the world. For the sake of comparison, the electricity generation capacity of the three power stations built in Egypt is greater than the entire electricity generation capability of the Israel Electricity Corporation, and it took less than two and a half years for Egypt to construct them.

However, demand for natural gas in Egypt is not only for electricity generation. By the end of 2018, some 9.9 million households in Egypt are expected to be hooked up to the gas distribution network, 1.5 million of them households that have been connected just in the past year, and the Egyptian government is working to continue the pace of connecting additional households. In the transportation sector, 220,000 vehicles have been converted to use compressed natural gas, and this figure is expected to continue to rise. In addition, Egypt has two large gas liquefaction facilities, intended for exporting natural gas, which together consume 17 to 20 BCM a year, and they, too, need gas. However, in light of the country's gas crisis, in recent years they have not had a regular supply of natural gas, and the facilities, in which international companies have invested many billions of dollars, mostly stand idle.

Egypt's need for Israeli gas can easily be seen by looking at the data. The attached figure shows the forecast of international consultants Wood Mackenzie regarding supply and demand for natural gas in Egypt, and the enormous gap that is developing between the country's supply of natural gas and its demand. It is important to emphasize that gas consumption in the figure does not include the two liquefaction facilities.

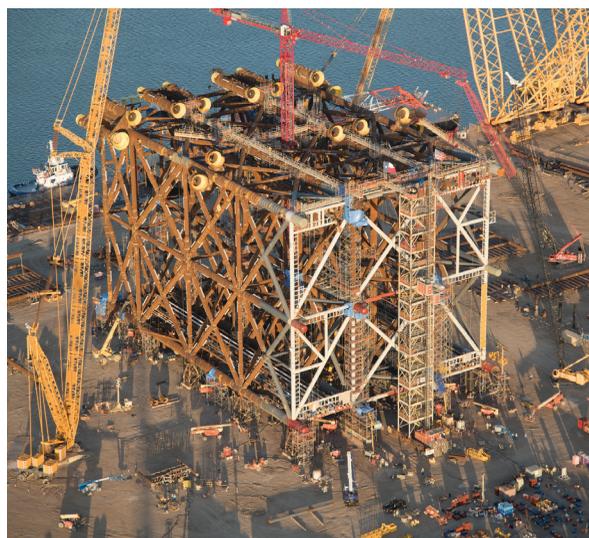
For these reasons, the export of gas from Israel to Egypt is, first of all, in Egypt's internal interests, based on a solid economic foundation. Although the nat-

ural gas agreement with Egypt was signed between private entities, the Egyptian government under Sisi has expressed satisfaction with the fact that, thanks to this deal, Egypt has achieved a foothold in the Middle Eastern energy sector, a foothold that positions Egypt as a regional energy center, since the measure significantly promotes turning Egypt into a regional hub for natural gas exports that will also allow gas to flow to the local Egyptian economy. In parallel, Egypt has recently also been looking at the Cyprus route, to enable a connection in the future between the Cypriot Aphrodite reservoir and Egypt.

Sisi's declarations that he wants "gas in the region to come to Egypt for domestic use and for export" by means of the liquefaction facilities in Egypt are strategic declarations, and behind them lies the cooperation between Israel and Egypt, standing side by side and working to promote joint interests, by leading regional energy collaboration.

Signing the export agreement at the beginning of the year, signing the agreement to purchase a stake in the EMG pipeline, and the statements by the Egyptian government throughout this period, highlight the mutual, long-term interest that exists between the countries and gives significant additional depth to the peace accords between the countries. The Egyptian and Israeli energy industries are enabling construction of a stable platform, based on long-term strategic interests, for additional collaborations between Israel and Egypt, and between other countries in the region, which can help the entire region in economic and energy terms.

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THE LEVIATHAN platform pictures which is in construction in Texas. (Courtesy)