INSS Insight No. 1033, March 12, 2018

The Gas Deal with Egypt: Israel Deepens its Anchor in the Eastern Mediterranean

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On February 19, 2018, the gas partnerships in Israel announced a $15 billion contract to export 64 billion cubic meters of natural gas to Egypt over ten years. The contract, between the owners of the Tamar and Leviathan fields and the Egyptian Dolphinus Holding, is based on a memorandum of understanding from October 2014. Presumably the government of Israel played an important role in securing this deal, by promoting it with the Egyptian government and possibly also by covering the guarantees required from Dolphinus for its approval.

The green light in Cairo for signing the deal after long Egyptian delays reflects several considerations. First, Egypt seeks to settle the $1.76 billion in compensation that the Egyptian gas companies were required to pay the Israel Electric Corporation (IEC) as part of an international arbitration verdict in 2015. Second, the decision to allocate most of the gas in the Zohr field to Egyptian domestic consumption paves the way for the flow of gas from Israel, Cyprus, and other countries to the liquefaction facilities in Damietta and Idku for the purpose of export to Europe, a step that maximizes the economic and political value of the fact that Egypt is the only country in the region with the infrastructures for gas liquefaction. The third consideration is the promise of estimated revenues of some $22 billion over ten years, and strengthened economic ties between Egypt and Europe.

In spite of the benefits, the gas deal with Israel aroused public debate in Egypt. Islamist elements, primarily Egyptian exiles, criticized "the import of Arab-Islamic gas stolen from occupied countries, and infusion of billions in the Zionist coffers." Opposition elements within Egypt indicated their concern over creating Egyptian dependency on Israel, but their criticisms focused on questions as to the economic benefit of the transaction for the Egyptian public and on the lack of transparency.

In response, government spokesmen pointed to the Turkish-Qatari considerations behind some of the criticisms. They minimized the role of the Egyptian government as broker of the deal, played down its political significance, and stressed its economic benefits. President el-Sisi, who is currently campaigning for a second term, expressed satisfaction that the region's gas will be exported via Egypt and not other countries, hinting at Turkey.

He stated that with this deal Egypt has gained a foothold in the Eastern Mediterranean, positioned itself as a regional energy center, and in his words, "scored a big goal."

The "goal" celebrated by el-Sisi appears to have positioned Israel and Egypt as players on the same "team" working to promote shared objectives. Articles in the Egyptian establishment press stressed the gains to both countries from the deal, and some pointed to the link between security coordination in Sinai and broader cooperation in energy. This Egyptian view gives additional depth to the peace relations, and highlights the mutual long term interest in fostering them. The gas deal also creates a platform for other bilateral and multilateral cooperation in the region that includes Egypt and Israel. However, it is still too early to call the deal a breakthrough in the normalization of relations. As there have been energy deals between Israel and Egypt since the 1980s, the current transaction does not set a precedent. Moreover, at this stage it is hard to assess to what degree the fruits of the deal will trickle down to the Egyptian public and reinforce their enthusiasm for peace.

A central Issue that was not addressed in the agreement is how to transport the gas from Israel to Egypt. In a subsequent announcement from the gas companies to the Tel Aviv Stock Exchange, they stated that negotiations are currently underway with EMG to reroute the original pipeline, which stopped activity in 2011. This is a very cheap and fast option albeit replete with considerable security challenges, since it is exposed to sabotage in the Sinai Peninsula - be it for ideological reasons or extortion by local tribes. If this option is not implemented, another cheap option would be to build 100 km of overland pipeline from the southern Gaza Strip, to connect the gas pipeline in southern Israel with the Egyptian pipeline in Sinai through the Kerem Shalom or the Nitzana crossing. This option would give Israel access to the Arab gas pipeline to Jordan (which continues to Lebanon and Syria) but would also be exposed to security threats. The safest but far more expensive option involves laying 300 km of undersea pipeline directly from the Tamar field to Egypt. The fact that the agreement was signed without clarifying the subject of transportation, an issue with important consequences for the deal's profitability and the gas prices, raises the possibility that other political and economic considerations played a part in the success of the deal or its timing. Apart from the transportation problem, failure to resolve the debt to the IEC could hamper implementation of the agreement.

The "Egyptian" option of transporting the gas from Israel, and in the future from Cyprus and perhaps from Lebanon, appears more realistic than laying a pipeline to Turkey, in view of the increasing radicalization of Turkey's regional policy, its worsening relations with Europe, and the possible strengthening of Hezbollah after the forthcoming elections in Lebanon, particularly as the pipeline would run through Lebanon’s economic waters. In addition, the new energy policy launched by Turkey last year is intended primarily to slow down the rise in local consumption of natural gas in favor of coal and renewable energy sources (and at a later stage, nuclear energy). On the other hand, Egypt offers Israel a growing local market and the possibility of using its liquefaction facilities to transport gas to Europe. Considering the strong competition expected in the European market for liquefied gas over the coming years, the use of existing facilities is the only realistic option facing Israel's gas partnerships if they want to offer competitive pricing.

Apart from the pipeline to Egypt, a pipeline to Jordan is under construction, as part of an agreement signed in 2016 to supply 45 billion cubic meters of gas over 15 years. The pipeline will run from north of Beit Shean and inter alia transport gas to the Palestinian Authority, permitting the volume of gas to be three times more than required for the Jordanian deal, and opening the possibility of a "northern connection" with the Arab gas pipeline passing through Jordan.

The deals with Jordan and Egypt have great strategic value for Israel and the region. They might possibly be joined by a future deal with the PA, enabling the supply of gas and perhaps also the production of gas off the coast of Gaza. These agreements stabilize Israel's relations with its neighbors by creating a web of mutual interests and opening up the possibility of regional cooperation beyond the subject of natural gas, such as the export and import of electricity and desalinated water.

In security terms, the flow of gas from Israel to Egypt, Jordan, and the Palestinian Authority makes this a regional and not just Israeli interest. In the new reality created, any damage by Hezbollah or Hamas to Israel's ability to produce gas will also affect the supply of electricity to Jordan, Egypt and the PA. The threat will become an important component in the intelligence and security cooperation with neighboring countries in identifying and preventing sabotage, and a catalyst for them to seek calm if fighting breaks out with one of these organizations. In economic terms, presenting a partnership between Israel and its neighbors dealing with energy resources will encourage the entry of new investors into the Eastern Mediterranean and show them that it is possible to implement large scale production and export projects requiring regional cooperation.

The deal could also have implications regarding the Lebanese issue. The unresolved dispute with Lebanon over maritime borders is a political and security nuisance for Israel. On the other hand, it has not prevented either Egypt or Jordan from entering into long term engagements with Israel in the field of energy. Clearly, hostilities between Israel and Lebanon would have destructive consequences, particularly for Lebanon, inter alia by reducing its ability to use the oil and gas in its waters, but they would also damage Israeli interests regarding the development of gas reservoirs close to the border. It seems likely that the bellicose rhetoric currently coming from Lebanon and the repeated rejection of United States compromise proposals are primairly background noise to the approaching elections. However, it would be best for countries that maintain a political dialogue with Lebanon, particularly those whose energy companies are involved in gas development, to work toward reducing the Lebanese bluster.