

# 11th Cyprus Energy Symposium

31 October 2023, Royal Hall, Nicosia

## Utilisation of Hydrocarbons – the wider picture

The Symposium is taking place at a time of momentous events in the region and in the global energy sector.

In our region the Israel-Hamas war overshadows most other issues. Right now, it is characterized by extreme uncertainty. It is a crisis but, in terms of energy, what happens is dependent on the extent and duration of the fighting, whether Hezbollah gets further involved, what Iran may or may not do, associated geopolitical tensions and the possible occurrence of terrorist attacks. With no solution in sight, the conflict risks developing into a regional confrontation with potentially global consequences.

In global energy terms the concern is whether it will lead to oil and gas supply disruptions. Oil prices were already high before the war, because of Saudi Arabia's and Russia's decision to extend oil production cuts, and went higher immediately afterwards. But they have since declined, implying that the oil markets do not see immediate dangers. The industry's current base-case appears to be that the conflict will likely be largely contained to Israel and Gaza.

The war has led to the shutdown of Israel's Tamar gas platform affecting gas supplies to Jordan and Egypt. A number of attempts have already been made to attack the platform and, with the war raging, it is unclear when it will restart production, but it is likely that it will take time.

This has already reduced Egypt's gas imports to less than 200million cubic feet per day (cf/d) from about 800 million cf/d, making it difficult for Egypt to meet domestic demand and export liquefied natural gas. S&P Global expects this to affect Egypt's economy, especially if it is prolonged.

The impact on Egypt's ability to maintain LNG exports it is also affecting gas prices in Europe.

Unfortunately for the region, these developments cast a shadow over the further development of the abundant gas resources in the East Med. A long-running conflict could delay projects and final investment decisions

and cause doubts and concerns in the minds of international investors that the geopolitical risk is too high. Hopefully not.

### **The IEA forecasts an end to natural gas**

And then there is IEA's World Energy Outlook 2023 released earlier this month. The IEA has made very big cuts to its future global gas demand estimates.

Not only it now says that based on current policies global oil demand will peak this decade, but, depending how deep and how rapid energy transition becomes, it also sees the 'beginning of the end' of fossil fuels, including gas, being brought about as a result of the global energy crisis, China's turn to clean energy and the rapid growth in low-carbon energy.

Even if IEA got it partly wrong, and there are many that disagree with its claim that the end of oil and gas is nigh, it is clear that the transition to clean energy is happening worldwide and it's unstoppable. It is no longer a question of 'if', it is just a matter of 'how soon'. IEA's Outlook is intended to serve as guidance for negotiations at COP28.

### **COP28 will be calling for an end to natural gas**

The pressure on fossil fuels is going to increase substantially next month at the UN's COP28 climate summit in Dubai. The UN secretary-General Antonio Guterres, has already called on countries to phase-out fossil fuels and "to leave oil, gas and coal in the ground where they belong." This will set the tone in Dubai.

Even Sultan Al-Jaber, COP28 president, but also CEO of Abu Dhabi's national oil company ADNOC, is urging the oil and gas industry to "step up its game" and invest more money in clean energy. He supports development of clean energy to phase out oil and gas production as soon as possible.

### **Oil industry consolidation**

Chevron and ExxonMobil have just completed major acquisitions, of Hess and Pioneer respectively, at a massive \$120billion. Their priorities and focus will be fast-shifting towards integrating these acquisitions into their operations.

All of these developments are ushering in an age of energy uncertainty, especially, in the light of IEA's Outlook and COP28, on the longevity of oil and gas demand. Even the big acquisitions by Chevron and

ExxonMobil can be seen as defensive positioning in the face of a questionable future for the oil and gas industry. At least that is what the FT is warning.

## **Gas markets**

With many new LNG projects, including Qatar LNG, coming into operation after 2025, global LNG production capacity will increase by 45%, with gas prices expected to come down considerably.

Egypt has embarked into drilling to expand production and new licensing and exploration to increase discoveries. Depending on the success of these activities, will its markets still be hungry for gas in five or so years-time?

## **Aphrodite crunch-time**

It was first reported by Politis that the talks between Cyprus and Chevron are reaching an impasse, only for the government spokesman to refute this a few days later, appearing optimistic that there would be a positive conclusion to the talks by the November 5 deadline.

The government justifiably pursued negotiation and improvements to Chevron's Aphrodite 'Field Development Plan.' But with these negotiations close to coming to an end, a number of key factors must be taken into account before reaching a final decision. These include:

- According to the IEA, the clock on fossil fuels has started ticking backwards. Demand may be substantially less into the next decade
- East Med is subject to geopolitical risk that, if instability is prolonged, it may deter investors
- Egypt has embarked on a new round of licensing, exploration and drilling and its gas needs may be quite different in a few years-time
- The East Med is not the centre of attention for Chevron and ExxonMobil, with their priorities fast-shifting
- If agreement is not reached, Chevron and its partners may not depart willingly, leading to protracted disputes and more delays. Chevron can afford to wait. It has many other, less risky, projects to get on with
- A rift with Chevron could also deter others from stepping-in. Companies that Cyprus may want to attract to replace Chevron
- Impact of such an outcome on others, such as Eni that is likely to propose a similar plan for the development of Cronos

- With the US State Department having already supported publicly Chevron's plan, it may also lead to unwanted political complexities
- And then there is the question: if Cyprus closes the door to this plan, does it have any other credible options up its sleeve to progress development of Aphrodite?
- It may not be possible to rely on any options that involve Israel for considerable time

So, lets hope that the optimism of the government spokesman for the Aphrodite negotiations is well-founded.

**Dr Charles Ellinas, @CharlesEllinas**  
**Senior Fellow**  
**Global Energy Center**  
**Atlantic Council**

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