

East Med gas
Impact of global gas markets and
prices

16th Israel Energy & Business Convention
ECO Energy, Ramat Gan, 19 November, 2018

Dr. CHARLES ELLINAS
Atlantic Council / CEO e-CNHC

Contents

- **Overview**
- **Global scene**
- **Long term gas prices**
- **Bloomberg LNG forecast**
- **East Med gas**
- **Climate change threats**
- **Petrochemicals**
- **Impact on East Med regional markets**
- **Concluding remarks**

Overview

- Increasing confidence in the East Med region
- Promising drilling by ExxonMobil in Cyprus and ENI in Egypt may transform the region
- Bloomberg forecasts increasing demand for LNG
- Gap between demand and supplies at about 2023-2025
- But strong competition from new projects
- Improved global energy markets and prices in the short-term but challenging in the longer-term

Will concentrate on impact of global gas markets and prices

Global scene: China

- China's gas and LNG import demand increasing rapidly
- Sanctions and trade war with US posing threats
- China going through economic slow-down
- For economic reasons and energy security concerns China changed energy policies in October
- Renewables capacity increasing rapidly
- Boosting indigenous resources - relaxed clean air policies
- Power of Siberia pipeline to deliver gas by 2019

Key conclusion: These developments are impacting China's LNG imports, slowing down growth in demand.

Global scene: Japan

- Japan released its new energy plan in July
- Going back to nuclear
- Reducing role of LNG
- LNG imports to be reduced from 84 million tonnes in 2017 to 62 million tonnes by 2030
- Process has already started
- South Korea also restarting nuclear

Challenge: Japan LNG demand is declining – not growing

Global scene: India

- India committing to more gas utilization in future
- Pipeline infrastructure cannot handle increasing LNG
- Existing import terminal capacity 30 million tonnes/yr
- Building new pipelines challenging
- India not giving up coal – last year up by 4%
- Priority on renewables – indigenous and cheap
- Sensitive to prices – unlikely to deliver on gas plans

Challenges: These developments are already having an impact on slowing down growth of LNG demand in Asia

Global scene: Europe

- Europe is well supplied with gas
- Gazprom and European Commission settled their differences
- Opens way for increased Gazprom gas to Europe
- Gazprom confirmed it can sell gas at \$4/mmBTU and make money
- US LNG companies expect to increase LNG sales to Europe at \$6.50/mmBTU

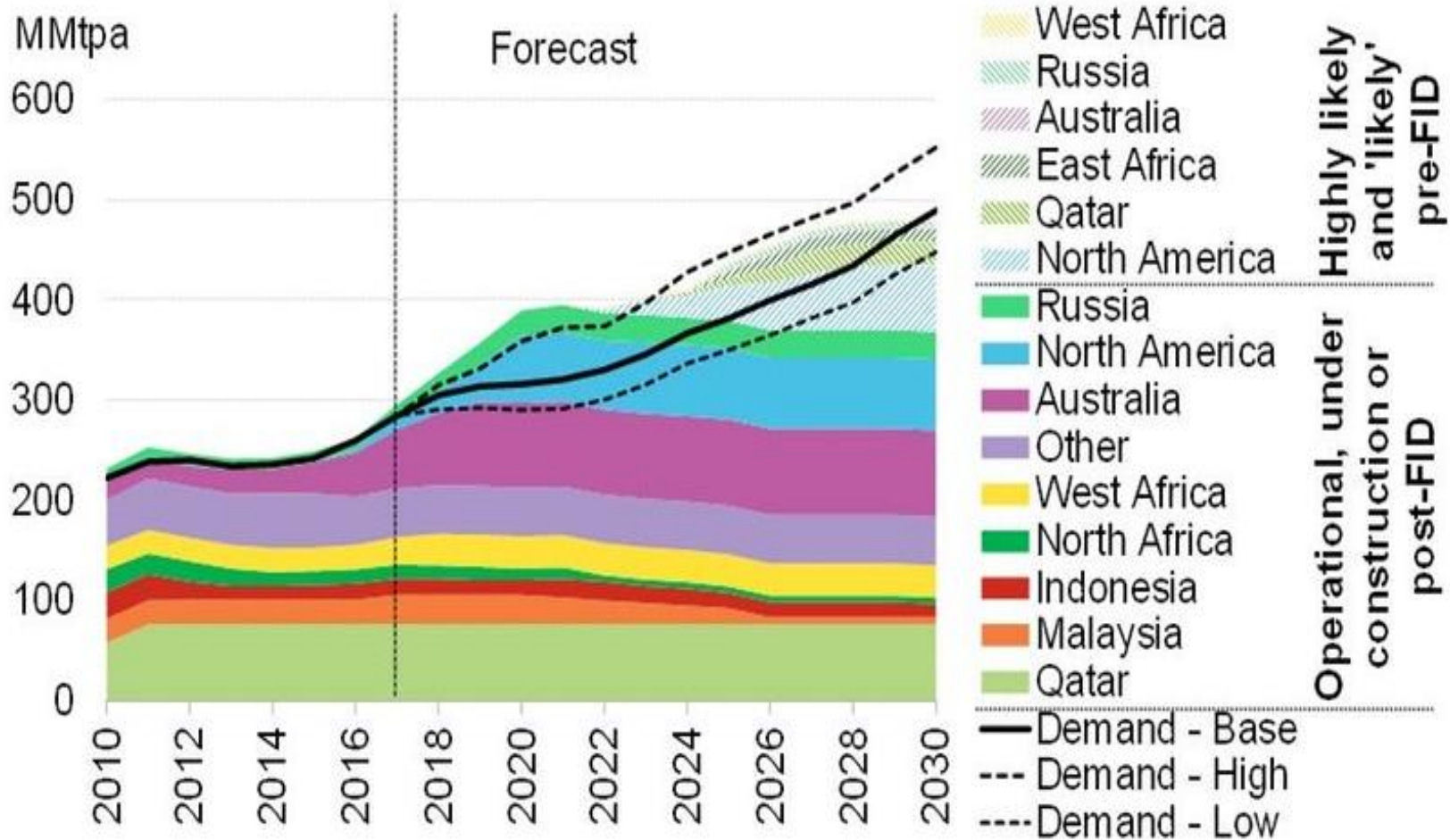
Key conclusion: East Med gas will have to compete with such prices if it is to gain entry into Europe

Longer-term gas price forecasts

- Longer-term price forecasts at four gas and LNG conferences in London and Berlin in October and November
- These confirmed spot prices by mid-2020s down to:
 - About \$8/mmBTU in Japan
 - About \$6/mmBTU in NW Europe
- Tokyo conference confirmed that global markets are price-sensitive

Key conclusion: East Med gas will have to compete with such prices if it is to secure export markets

Global LNG demand and supply outlook



Global markets and prices

- The world is awash with oil, gas and LNG and with US shale on the resurgence, and renewables penetration unstoppable and coal holding its own, competition to secure markets is fierce
- EU upped its 2030 climate targets – carbon pricing increasing fast – promoting renewables and impacting fossil fuels
- Renewables were over 70% of net additions to global power generation capacity in 2017 – now over 26% of global electricity
- New energy outlooks expect peaking fossil fuel demand in 2030s – warn that expensive gas could hasten renewables penetration and lead to faster decline. With low price gas will do well
- On top of regional conflicts and geopolitics, these are factors that challenge export of East Med gas

East Med gas

- This is what East Med has to complete to secure export markets
- It needs to be competitive
- ExxonMobil said that this will be essential in demonstrating commercial viability of an LNG export project in Cyprus
- Also need to find ways to reduce regional geopolitical risk
- LNG projects involve multi-billion dollar investments the returns from which take decades to materialize

Key conclusion: Such projects and investments need certainties.

Climate change threats

- Climate change warnings in UK IPCC report in October
- Shell and BP robustly defended the oil and gas industry, but they agreed that “clearly it is a call to action”
- On the defensive
- Increasing divestment by the insurance industry and institutional investors and litigation by activists pose increasing threats to the industry

Key conclusion: In addition to pursuing exports, we should be considering ways to maximize use of East Med gas in the region.

Petrochemicals

- IEA has just released a report saying that the demand for gas in petrochemicals is expected to carry on increasing
- Growing quantities of low-cost feedstock in the region
- Petrochemicals industry provides great opportunities

Key conclusion: We should prioritize this.

Impact on East Med regional markets

- The East Med and Middle East regions are geopolitically volatile. Developing and exporting oil and gas is a challenge, especially in the prevailing low demand - low price environment globally
- Disputes are often the result of competing oil and gas interests and unresolved border and EEZ disputes, particularly in the East Med. And more often than not diplomacy is sidelined by aggressive action
- With the US re-imposing sanctions on Iran it may complicate this picture even further – recently oil prices went up, and with them LNG prices, but this is a short-term effect
- Within this environment Egypt offers some hope both as a regional market and as a gas exporter – Idku and Damietta - cooperation with Cyprus and Israel

Concluding remarks

- **Key conclusion: East Med still has strong prospects for more gas discoveries, especially ExxonMobil in Cyprus and ENI in Egypt, but securing export markets remains a challenge.**
- **We should consider ways to maximize use of this gas regionally**