EGAS to fight compensation ruling in favour of Israel Electric, EMG

Egypt's EGAS and EGPC plan to appeal a recent arbitration ruling that would see the state firms pay over USD 2 billion to Israel Electric Corporation (IEC) and pipeline operator Eastern Mediterranean Gas (EMG), media reports have said.

International arbritators ordered the Egyptian companies to pay USD 1.76 billion to IEC and USD 288 million to EMG in compensation for having halted gas supplies to Israel in 2012.

But EGAS and EGPC will appeal the decision within the next six weeks, media reports citing Egyptian prime minister Sharif Ismail said.

IEC had reportedly begun seeking USD 4 billion in compensation three years ago, claiming that EGAS and EGPC had violated a contract by ceasing export flows to Israel – a move the Egyptian pair attributed to higher powers.

Pipeline exports from Egypt stopped following several attacks by militant groups on the pipeline in the Sinai region of Egypt in 2012, leaving IEC faced with importing alternative fuels from elsewhere to generate power.

Egyptian gas had met around 40% of Israel's total gas demand prior to exports ceasing under a 20-year SPA signed in 2009.

In the three years since gas exports ceased, Egypt has transitioned from a net exporter to a net importer. The country began importing LNG earlier this year and is now looking at potential pipeline imports from both Israel and Cyprus.

Supply talks

Egypt has said current talks over potential gas imports from Israel would be put on hold until the arbitration issue was resolved.

The Egyptian government reportedly told EGAS and EPGC to freeze negotiations between companies to import from Israeli fields or elsewhere until "the results of the appeal are clear".

Egypt's decision to halt supply talks could impede Dolphinus Holdings ambitions of importing gas from Israel.

The company, which represents private sector industrial and commercial consumers in Egypt, signed a letter of intent (LOI) with partners of the Leviathan field in November for up to 4 Bcm/year of supply over a 10-15 year period.

Dolphinus had already agreed a sales and purchase agreement (SPA) at the start of the year with partners of the Tamar field for at least 5 Bcm over the three years, subject to a 250,000 MMBtu/day limit and delivery constraints from Israel Natural Gas Lines.

The Dolphinus deal hinges on the company winning approval from both Israel and Egypt to export gas to the north African state.

Temporary problem?

Justin Dargin of the Oxford Energy Institute told Gas Matters Today that Dolphinus' SPAs with Israel could be hampered by the arbitration case, but that the situation could change.

"This will only be for the interim. Egypt, of course, will attempt to appeal and attempt to leverage the promise of losing a potentially large gas market in front of Israel to influence the waiving of the award," Dargin said.

"Israel stands to lose greatly from the potential commercial and political benefits of exporting gas to Egypt," he added.

Dargin's views on the Leviathan field were echoed by Israeli energy minister Yuval Steinitz.

"Whatever happens, Israel must rapidly develop the gas fields that it has discovered to ultimately achieve a reasonable degree of energy independence," Steinitz told reporters.

"We will continue moving forward with energy export options, not only with Egypt but other countries in the region such as Jordan, Greece and Turkey and even countries in Western Europe," he added.

"Israel sees major importance with overall defense, economic and energy relations with Egypt and hopes that through close bilateral relations, we can continue moving forward on the subject of gas in the short term," he said.

Egyptian president Abdel-Fattah El-Sisi plans to travel to Athens this week to attend a tripartite summit with Greece and Cyprus.

El-Sisi will also attend an Egypt-Greece businessmen's summit discuss economic cooperation, particularly in the energy sector.

Flurry of negotiations

The IEC case against Egyptian state firms is the latest in a series of arbitration proceedings and negotiations between north African and Middle East states and gas buyers in recent weeks.

Italian utility Edison announced late last month that it had won a case against Eni for a price revision to its gas contract with Libya. Edison was awarded a retroactive payment of approximately EUR 1 billion.

Separately, India's Petronet is reportedly close to amending its long-term SPA with Qatar's RasGas. The case may have wider-reaching implications for buyers looking for better terms in the lower energy price environment. - ET

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