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# Natural Gas in the Mediterranean

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**AFG Gas Conference, Paris 15 September 2011**

# Implications of Political Change for Gas Development Policies

- **Delayed decisions**

Prioritisation of political reform agenda

- **Subsidy reforms**

Social pressure and populist temptations

- **Investment/fiscal terms**

Rent maximisation and job creation vs. heightened risk perceptions and supply pressure

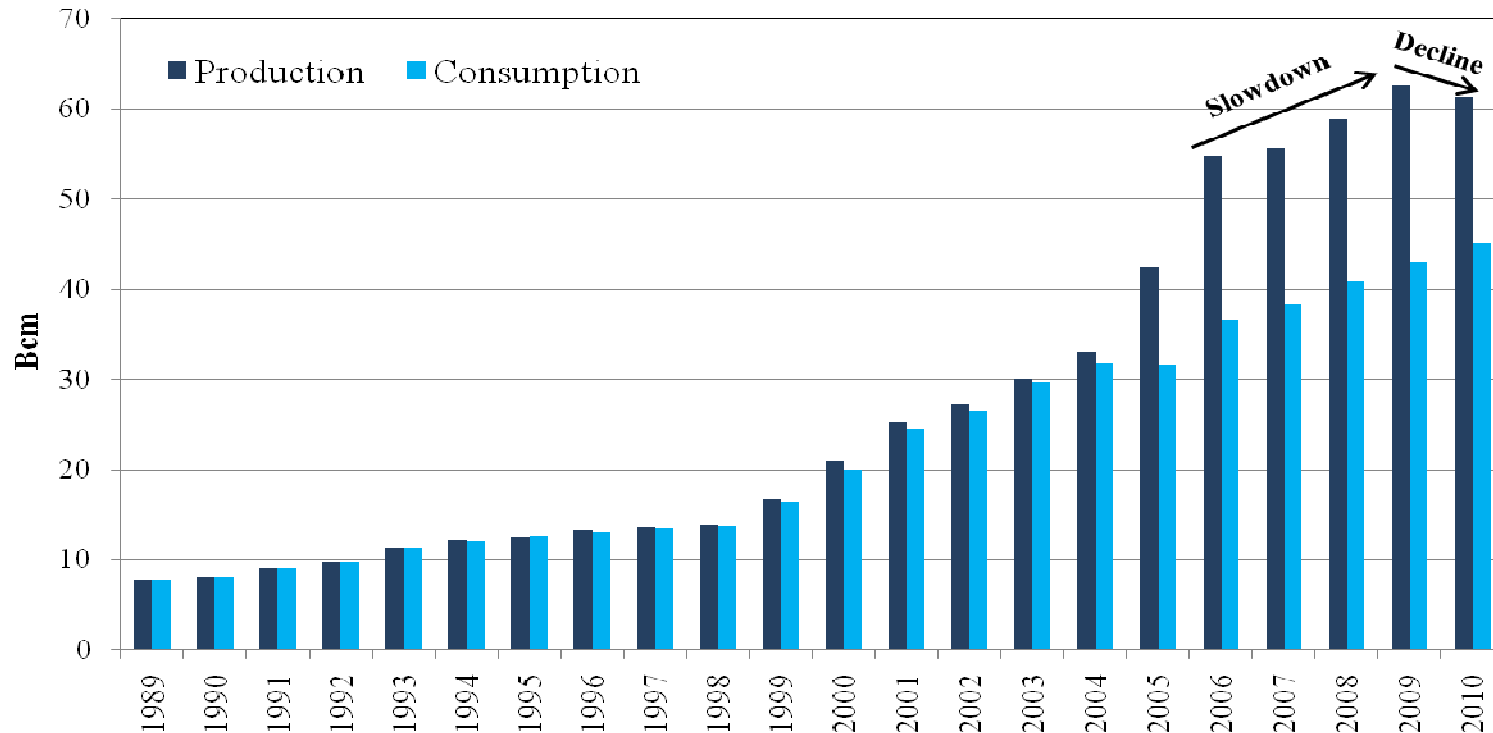
- **Utilisation policies**

Downstream industries vs. exports



# Egypt: An Impending Gas “Crisis”?

Egypt's gas balance, 1989-2010



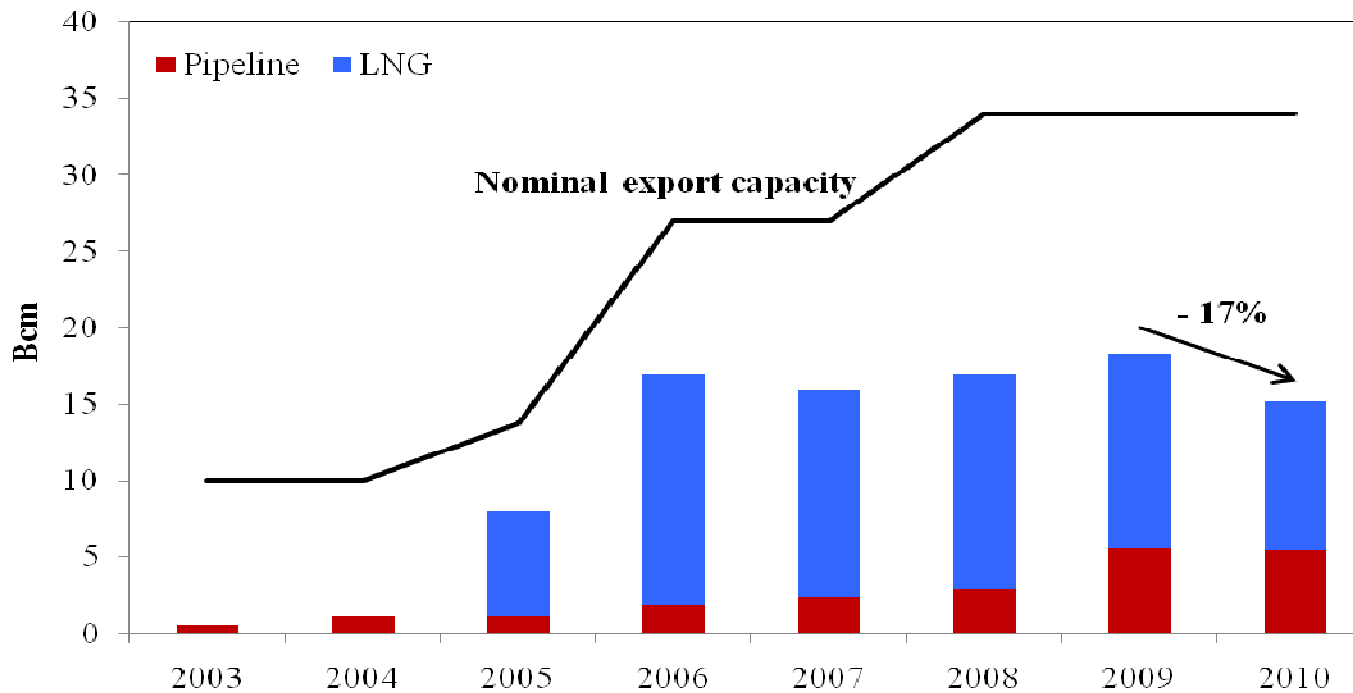
Sources: BP and Cedigaz

- For the first time in over 20 yrs, production recorded a negative growth rate, declining by over 2% in 2010
- At the same time, demand continued to grow solidly



# Exports Feel the Squeeze

**Egypt's natural gas exports, 2003-2010**



Sources: BP, Cedigaz and own estimates

**LNG sales were up slightly in 1H 2011, mainly as a result of industrial slowdown and pipeline disruptions. Exports halt prevented a summer supply crisis as in 2010.**



# Visible Effects of Recent Changes on Egypt's Gas Policy

- Delayed gas upstream licensing round to 2Q'12  
→ At the expense of much-needed investment.
- Increased energy subsidies: \$16 bn in FY11/12,  
10% for gas  
→ Continued strong demand growth, fiscal pressure  
and indirect impact on upstream development.
- Shift in export policy.  
→ Revised prices and clear signal regarding LT  
export strategy focus (LNG vs. pipelines).



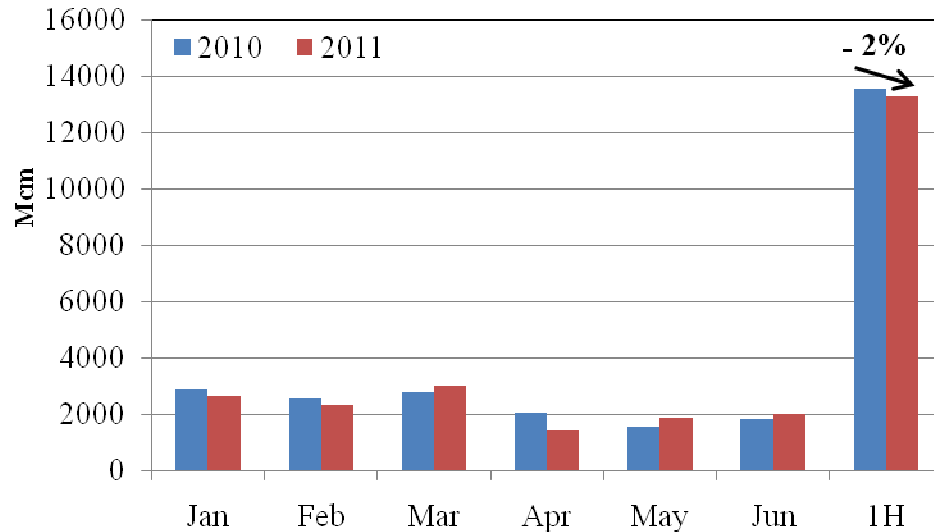
# Algeria: No Significant Changes

- Recovery of production to pre-2009 level (85 bcma)
  - 5 Bcm increase in pipeline exports to Italy
  - 6% growth in domestic demand meant that LNG sales were squeezed (below 20 bcma mark for first time in 15 yrs).
- Supply remains tight but apparently no sinister, structural upstream issues at HRM.
- 3<sup>rd</sup> upstream licensing round (March '11) confirmed need for improved terms, although contextual influence cannot be ruled out.



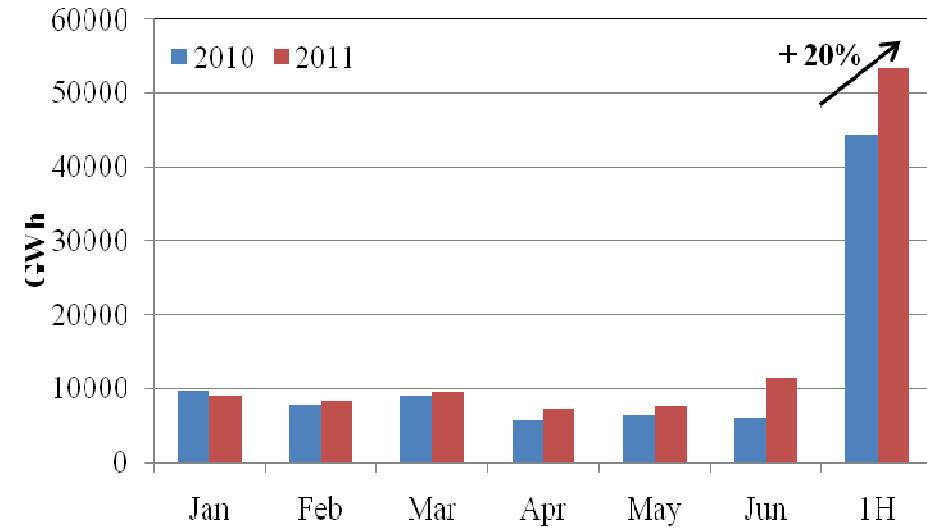
# Export Performance in 1H 2011

Algerian pipeline exports to Italy



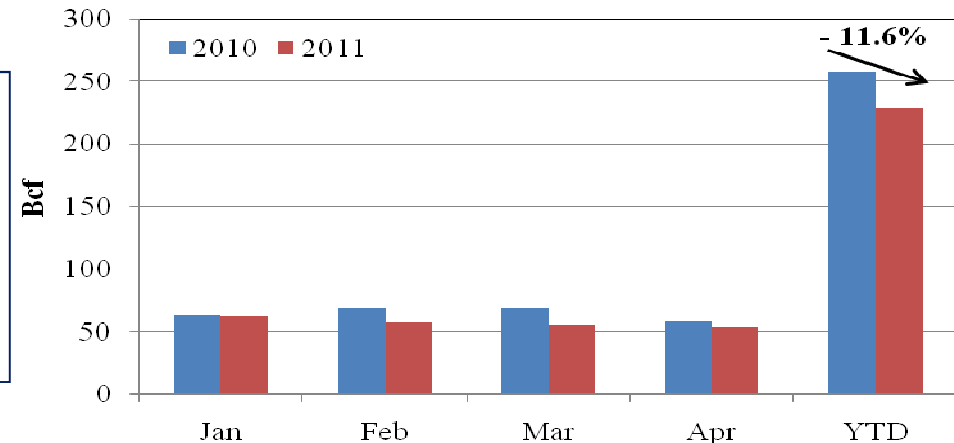
Source: Snam

Algerian pipeline exports to Spain



Source: Enagas

Algerian LNG exports



Source: Waterborne LNG

- Medgaz running at around 35-50% of capacity
- Downward impact on LNG sales as expected
- Again, supply seems to be keeping up

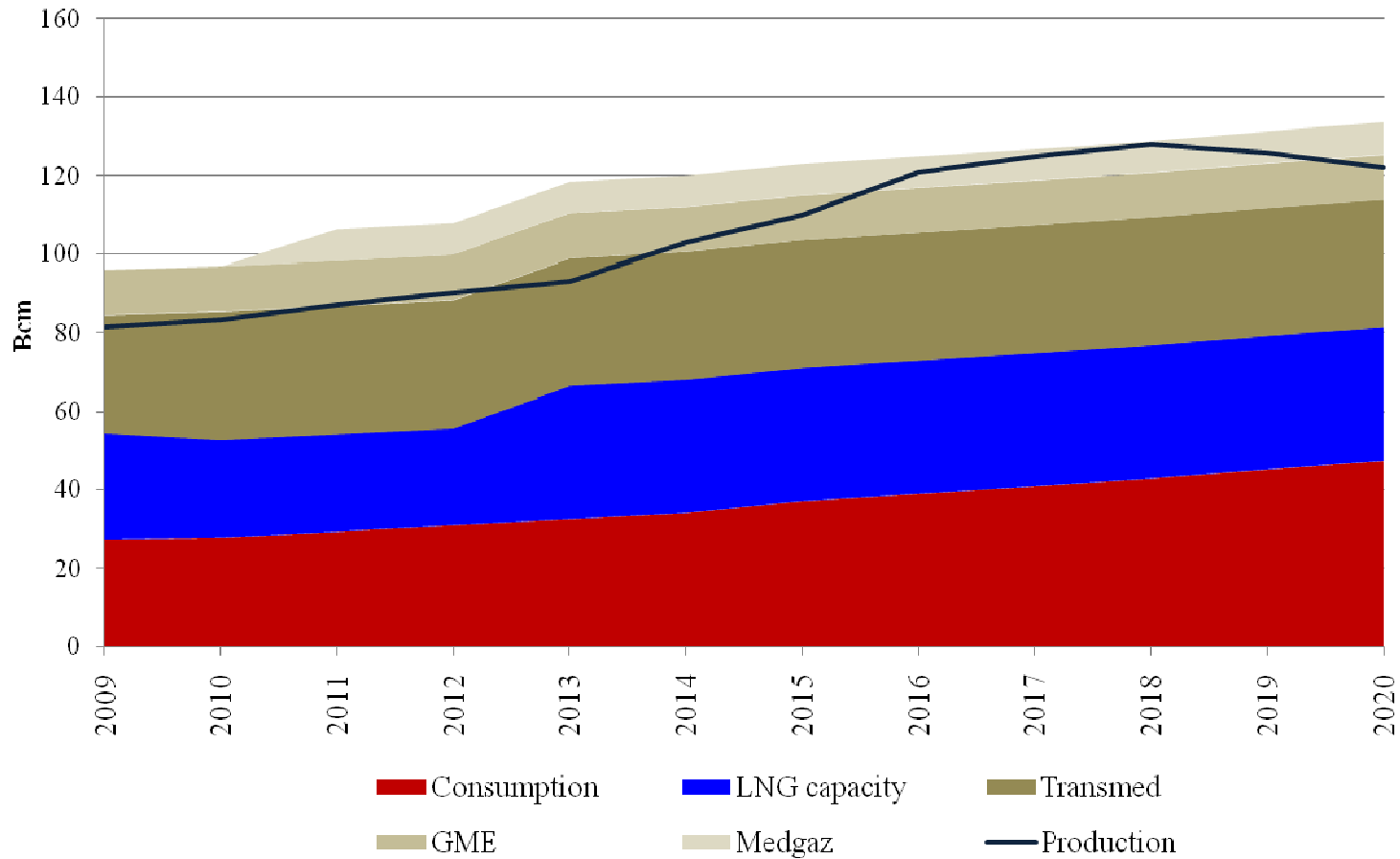
# Gas Policy Developments

- ~\$7 bn/yr G-to-P subsidy to remain unchanged
- Feedstock prices for petchems to be revised upwards
- Fiscal terms revision necessary, but requires political attention
- Older Skikda trains (3 mtpa of capacity) to be decommissioned when new one is completed
- LNG exports restricted to LT contract commitments
- Post-2014/15 export strategy likely to focus on pipeline markets and Med LNG.



# Likely Supply Scenario

Algeria's gas balance to 2020



Sources: CREG (2010), Sonatrach and own



# The Outlook for Libyan Gas

- Libya's main gas infrastructure in West not damaged, so pre-conflict capacity can easily be recovered (contrary to oil).
- However, incremental production will be subject to post-conflict security situation, state/nation-building process, new government policy, etc.

**Whatever the outcome, we can safely assume that no significant amount of new gas will be developed by 2015.**



# Conclusion

- North African gas exports to Europe will see little or no increase by 2015.
- Their prospects post-2015 will hinge on the policies governments in the region will pursue in the next 3-4 years.
- Despite the uncertainty caused by the recent political changes, we should see improved gas dev. policies.
- Opportunity for the EU to revive Euro-Med energy cooperation at the policy level.

