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Chevron's Purchase of Noble Energy: Accelerating the Eastern Mediterranean's Gas Revolution?

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The American multinational energy company, Chevron, announced the purchase of Texas-based Noble Energy on July 20, 2020, paying $5 billion in stock, and assuming $8 billion of debt.[1] Noble, while not a major player in the global energy market (with a market capitalization of $4.6 billion versus Chevron's $163 billion), is a major player in the rapidly developing gas ecosystem in the eastern littoral of the Mediterranean Sea, where significant gas discoveries were made only in the past decade. It is, with its Israeli partners, the pioneer of gas exploration in Israel's two large fields, Tamar and Leviathan (in which it owns 25% and 39.66%, respectively);[2] it also has a 35 percent stake in Cyprus' offshore Aphrodite field, and a minority share of the pipeline connecting Israel to Egypt.

In recent years, the Eastern Mediterranean has also produced some of the world's largest known gas discoveries, including Egypt's massive Zohr (2015) field; and Cyprus's Calypso (2018) and Glaucus (2019) fields, which – along with Tamar (2009), Leviathan (2010) and Aphrodite (2012) – collectively hold an estimated 2.5 trillion cubic meters of gas (90 trillion cubic feet).[3] These discoveries and the beginning of extraction (in Israel and Egypt) have led to important transformations

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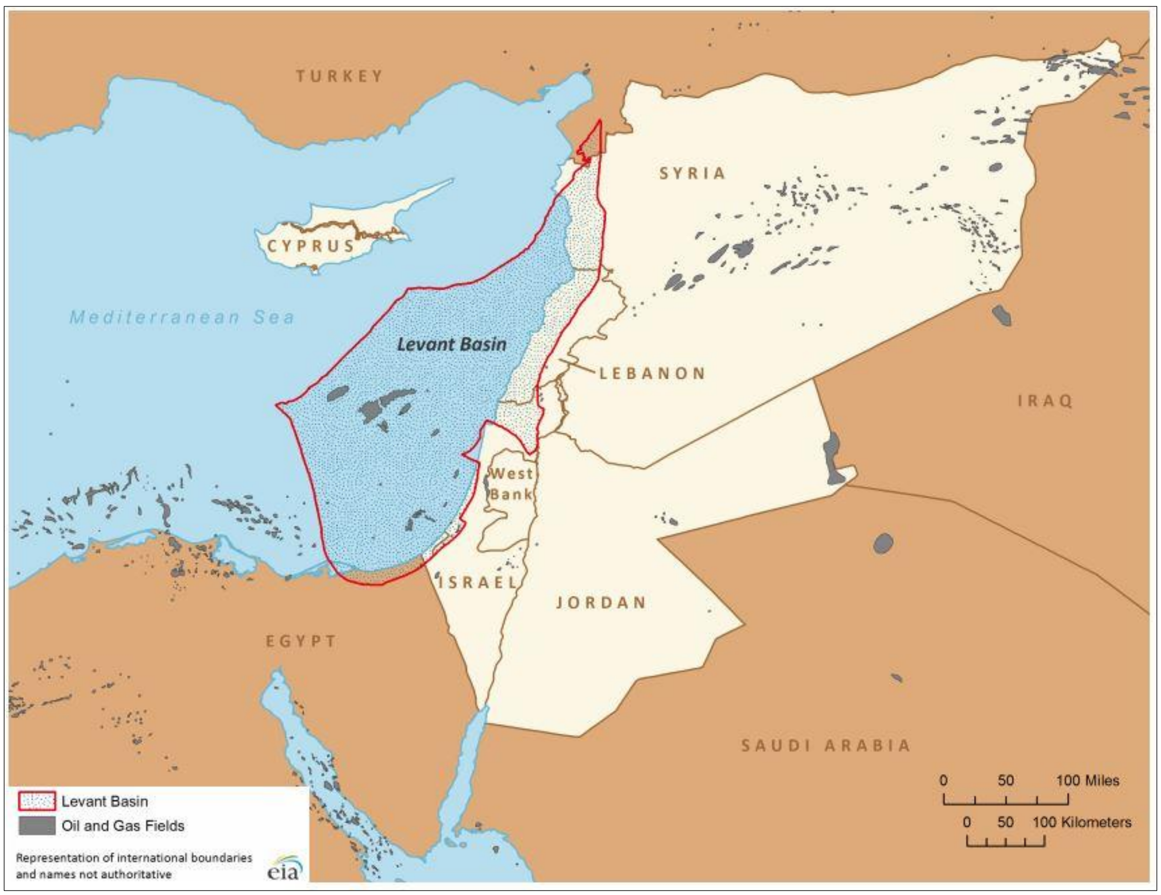
[1] Intention to implement the merger has already been filed with the SEC, and it has been approved by the Boards of Directors of both companies. It still has to be formally approved by Noble's shareholders, a step expected at a special shareholder meeting set for 2 October. Matthew V. Veazey, "Noble Reveals Date of Chevron Merger Vote," *Rigzone*, August 24, 2020.

[2] In Leviathan, its partners are Delek Group subsidiaries Delek Drilling and Avner Oil Exploration, which have a working interest of 22.67% each in the project, and Ratio Oil Exploration, with 15%. In Tamar, its partners are, Isramco Negev 2, which owns 28.75%, Delek Drilling (22%), Tamar Petroleum, (16.75%), Dor (4%), and Everest (3.5%]. (Delek Group website).

[3] "Battling Over Boundaries," *Economist*, August 22, 2020; and "*Deep Sea Rivals: Europe, Turkey, and New Eastern Mediterranean Conflict Lines*," European Council on Foreign Relations, May 2020.

in the three countries' economic development and export strategies, and in their potential geopolitical influence, contributing to the possibility that they will be able to achieve a substantial degree of energy independence, especially in industry and power generation. They have also led to a spate of further gas exploration in the sub-region by major companies, as well as to efforts by Turkey and Lebanon to harvest gas from their territorial waters (with little luck so far in the Mediterranean, but a sizeable gas discovery by Turkey in the Black Sea).[4] The location of some of these gas fields in disputed territorial waters, and their close proximity to key consumer markets in Europe and the Indian subcontinent, have sharpened existing, unresolved disagreements and tensions over maritime boundaries in the Eastern Mediterranean.

Oil and natural gas fields in the Mediterranean Region



Source: U.S Energy Information Administration

[4] "Turkey Announces Major Natural Gas Discovery in Black Sea," *Al-Monitor*, August 21, 2020.

The Chevron deal was first proposed last year as a 50 percent investment stake in Noble's Eastern Mediterranean natural-gas fields;[5] but after Noble reported a first-quarter loss of nearly $4 billion in 2020, and faced Corona-related reduction of demand, its board opted to sell the company rather than enter into a partnership with Chevron. This early interest indicates that, in addition to Chevron's desire to secure Noble's U.S. shale assets in the U.S. Permian and DJ Basins, the company's move was strategic, and intended to improve its position in the Eastern Mediterranean. In Chevron's press release announcing the acquisition, it stressed that "Noble Energy brings low-capital, cash-generating offshore assets in Israel, strengthening Chevron's position in the Eastern Mediterranean."[6]

The deal seems to be part of a larger move by Chevron into the Middle East, which includes a new deal for exploration work in southern Iraq's Nassiriya oil field, in addition to its existing holdings in Iraqi Kurdistan and in the Kuwait-Saudi Arabia "Neutral Zone".[7] More generally, Chevron is reported to be interested in increasing its holdings in the gas sector, understanding that they may have greater longevity than in the oil sector, where majors could end up with stranded assets in the coming decades. In any case, low prices in the wake of the coronavirus crisis have made shipping natural gas from the Western Hemisphere and Australia (where Chevron has its most significant natural gas holdings) to more distant markets, unprofitable. Active gas fields, closer to Europe and – delivered through the Suez Canal – near the Indian subcontinent, like Noble's in Israel, may therefore be attractive to Chevron.

The deal makes Chevron the first energy major to invest in Israel, a reflection of positive relationships that have developed between Gulf States and Israel due to shared regional concerns and agendas (of which the recent UAE-Israeli normalization agreement is only the most public indication). This has made a deal like Chevron's purchase of Noble less controversial in the Gulf and thus, much less risky than in the past.[8]

Chevron may be hoping to play the role of "aggregator" in the Eastern Mediterranean, bringing together gas from several fields in several different

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[5] "Chevron's Interest in Giant Gas Field Led to $5 Billion Bid for Noble Energy," *Reuters*, August 12, 2020.

[6] "Chevron Announces Agreement to Acquire Noble Energy," Chevron Press Release, July 20, 2020.

[7] Elizabeth Hagedorn, "Intel: Iraq to Ink Oil Deal with Chevron, Foreign Minister Says," *Al-Monitor*, August 19, 2020.

[8] It is worth noting that there is vocal opposition to the deal by Israeli environmental activists, who are concerned about Chevron's problematical record regarding environmental safety issues. It is not assessed that this opposition will have significant effect on the Israeli government's stated intention to approve the deal (Sue Surkes, "'Not Necessary' to Probe Spills Linked to Chevron, Energy Minister Says," *Times of Israel*, August 17, 2020).

countries to make economically viable large initial capital investment in pipeline projects (especially to Egypt), and/or a new liquefied natural gas (LNG) export plant. Its worldwide customer base would also provide it with the ability to more easily market the region's gas internationally. However, other producers, with large and older stakes in the region – such as Shell, Eni (which discovered the giant Zohr field and thus revived Egypt's gas industry in 2015), or BP – may be equally interested in this role, and better positioned to fill it.[9]

Chevron is unburdened by Noble and Delek's heavy debts, and therefore more capable of maximizing the potential of the Israeli and other fields. Since the early 2000s, the major energy companies have preferred to let smaller players, like Noble, carry out explorations and expensive early development in unstable and high risk regions, and then buy them out if and when the capital investment proves worthwhile. In the current depressed state of the global gas market, and given Chevron's relatively deep pockets, it may well choose to delay any decision to significantly invest in developing its deep-water Mediterranean assets (other than the already-producing Israeli ones), waiting rather for greater market demand and increased global economic activity in general. This may slow Cyprus's plan to develop its gas fields and export its resources.[10]

Chevron seems to have decided in the past year to significantly expand its operations in Egypt. Early this year, it acquired exploration rights to three Egyptian blocks in the Mediterranean (North Sidi Barrani, North El Dabaa and Nargis) and in the Red Sea.[11] It will also inherit Noble's minority stakes in two exploration blocks operated by Shell off of Egypt's Mediterranean coast, adjacent to Chevron's North El Dabaa block.[12]

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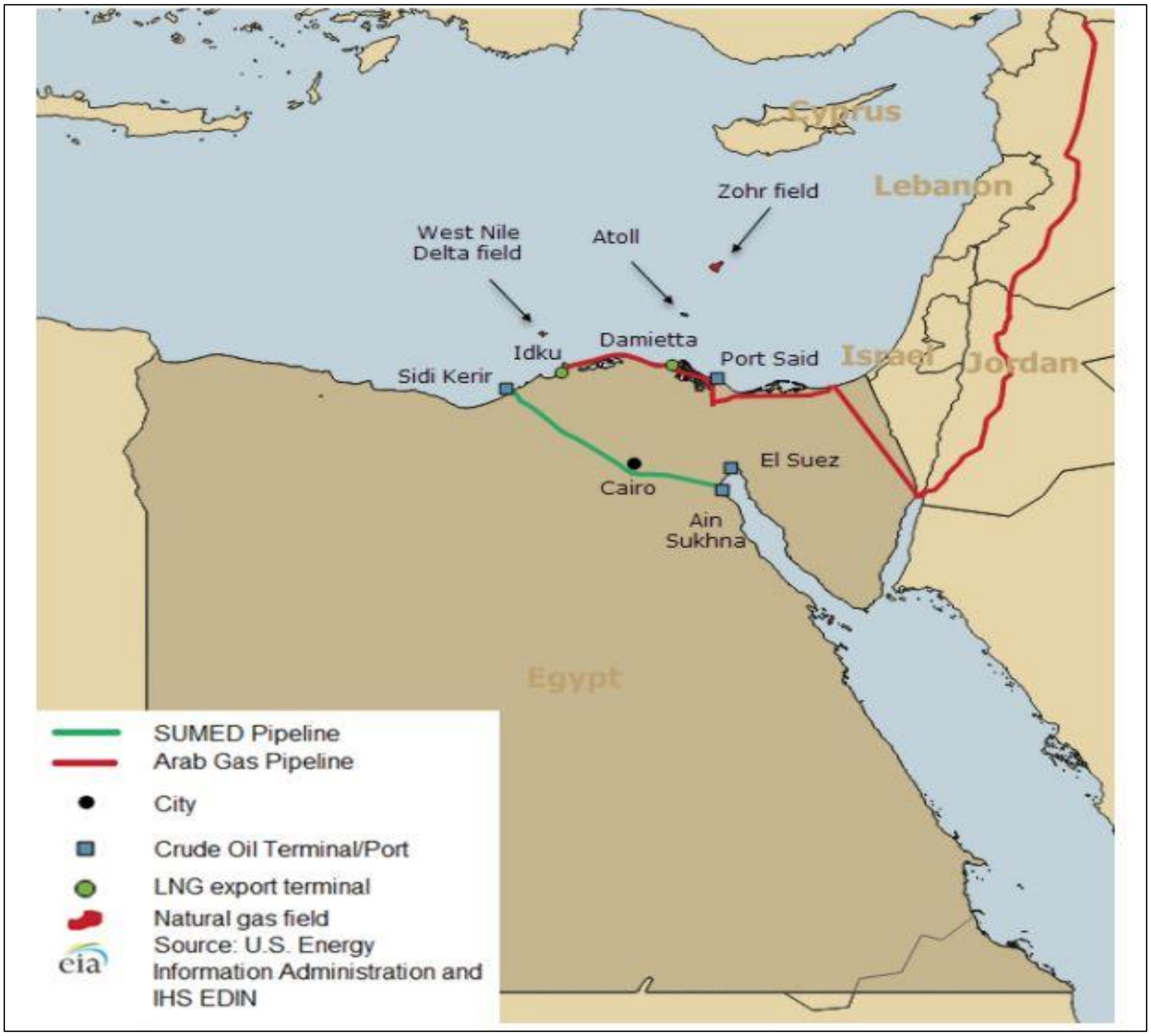
[9] Robin Mills, "Chevron Faces Turnaround Challenges in Eastern Mediterranean After $5bn Noble Deal," *The National*, July 27, 2020.

[10] Simon Henderson, "East Mediterranean Energy Rivalries Face Harsh Economic Realities," *Washington Institute Policy Alert*, July 17, 2020; and, Charles Ellinas, "Noble Energy's Buyout: What It Means For Cyprus' Gas", *Cyprus Mail*, July 26, 2020. It is worth noting that Eni and Total have already suspended drilling in their Cypriot blocks until mid-2021: Elias Hazou, "ENI and Total Drillings Officially On Hold For One Year," *Cyprus Mail*, May 4, 2020.

[11] "Egypt Announces Red Sea Offshore Bid Round Result, Awards 3 Blocks," *EnergyEgypt*, December 29, 2019.

[12] Robin Mills, "Chevron Faces Turnaround Challenges in Eastern Mediterranean After $5bn Noble Deal," *The National*, July 27, 2020; and, "US Oil Major Increases Involvement in Egypt," Economist Intelligence Unit (EIU) Country Reports, August 6, 2020.

Map of Egypt



Source: U.S Energy Information Administration

Egypt is key to unlocking the gas revolution in the Eastern Mediterranean. It appears to have the region's largest reserves, and it achieved gas self-sufficiency in December 2018 – producing around 161 million cubic meters per day. It also has existing facilities for liquefying gas, in Damietta and Idku on the Nile Delta (Eni is the lead partner in Damietta in the eastern Nile Delta, and Shell in Idku). These obsolescent and underutilized facilities, as well new ones planned for both the Mediterranean and Red Sea coasts,[13] are crucial to realizing and monetizing the region's potential to export gas to other regions. This makes Egypt especially critical to the Eastern Mediterranean gas market, as the much-ballyhooed $7 billion 1,900 kilometer EastMed Pipeline Project - to export Israeli, Cypriot and Egyptian gas to

[13]Amiram Barkat, "Israel, Egypt mull Sinai LNG plant for Asian exports," *Globes,* July 28, 2019.

Southern Europe (easing Russia's/Gazprom's hold on this market) along the seabed through Greek waters to Italy - is extremely challenging technically. It is worth noting that the EastMed Pipeline may be a non-starter in the near- to mid-term, not just because it may be too difficult to build, but also because escalating maritime boundary claims between Turkey on the one hand, and Greece and Cyprus on the other, and related risk assessment considerations may make the project unattractive.[14]

Egypt therefore has the potential to serve as a regional gas hub, and seeks that role. It is a driving force in the Eastern Mediterranean Gas Forum, which was formally established in January 2020, and includes Israel, Greece, Cyprus, Jordan, the Palestinian Authority, and France, and whose secretariat is based in Cairo. Cairo sees this organization *inter alia* as key to its efforts to re-emphasize its leading position in the region, especially vis-à-vis Ankara. If Chevron's investment in Noble is a sign that it is looking to aggregate Eastern Mediterranean gas for export, using Egypt as a hub, this would be a significant blow and challenge to Turkey's hopes of playing that role, through its own gas discoveries (despite reports of a sizeable Turkish gas discovery in the Black Sea) and pipelines from Russia and the Caucasus through its territory to Europe.[15] This well might inject Chevron into the developing "cold-hot" maritime war in the Mediterranean's Eastern littoral. The background for this is conflicting claims over the extent of the Exclusive Economic Zones (EEZ) of Turkey, Libya, Greece and Egypt, as well as Turkish support for claims by the so-called Turkish Republic of North Cyprus to a share of Cyprus' potential gas bounty.

Chevron will also be purchasing Noble and Delek's claims to the license for Alon D (now known as Block 72), the exploration block abutting Lebanon's Block 9, which includes part of the 860 square kilometers of disputed maritime territory between Israel and Lebanon (the two blocks may cover parts of the same gas field). The Alon-D license was revoked by the Israeli government in April 2020, and a new tender was issued for bidding in June: Noble and Delek sued the energy minister, claiming that they had wished to develop their claim (which seems promising, since it is adjacent to the Karish gas field), but that the government did not permit it, due to diplomatic considerations. If it decides to pursue the Israeli court case and wins, the fact that Chevron is a large, multinational energy firm might be beneficial to its reaching agreement with the holders of the rights to Lebanon's Block 9 (Total, ENI

[14] See, for example: Charles Ellinas, "Changing Priorities Threaten Viability of Eastmed Gas Pipeline," *Natural Gas World*, January, 23, 2020; and, "Battling Over Boundaries," *Economist*, August 22, 2020

[15] John V. Bowlus, "Pulling Back the Curtain on Turkey's Natural Gas Strategy," *War on the Rocks*, August 26, 2020.

and Total, Eni and Russia's Novatek) in a way that the smaller and less influential Noble could not.[16]

The reaction to the Chevron deal in Jordan has been subdued. In 2016, Noble Energy signed a 15-year, $10 billion deal with Jordan's state-owned National Electric Power Company to sell 45 billion cubic meters of gas from the Leviathan field, which would be pumped to Jordan via a new pipeline connecting the two countries' existing gas transport infrastructures. Pumping began in January 2020. The deal is deeply unpopular in Jordan, has been the subject of public protests, and was unanimously rejected in January 2020 by the (toothless) elected House of Representatives.

The Israel-Jordan gas deal's economic rationale has also been called into question. The Israeli deal is linked to the price of Brent crude oil and reportedly (according to an alleged copy of the deal leaked by Jordanian opposition politicians) and has a base price of $5.65/per million (mn) British thermal units (BTU) when Brent crude is $30 per barrel (it is currently $44), and a ceiling price of $11/mn BTU. Due to the low global demand for and oversupply of gas, liquefied natural gas delivered to Aqaba port should currently be cheaper (the Israeli Electric Corporation, for instance, pays about $3.5/mn BTU for imported LNG).[17] As reported by this source, the deal also contains a provision that if natural gas is discovered in Jordan, a reduction of the amount of gas Jordan imports from Israel can be negotiated only after it purchases 50 percent of the total contracted amount, with the reduction not surpassing 20 percent of the daily contracted amount. Per the terms of the deal, Jordan must pay $1.5 billion if it ends the agreement within the first five years; $800 million between the fifth and tenth year; and $400 million from the tenth to the fifteenth year.[18] It is also worth noting that Egypt renewed deliveries of gas to Jordan in 2018 (a development which seemed unlikely when Jordan signed the deal with Noble in 2016), reportedly at less than $5/mn BTU.[19]

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[16] Omri Milman, "Despite the Appeal by Delek Drilling and Noble Energy: Steinitz Published a Tender for the License which Was Annulled," *Calcalist* [in Hebrew], June 23, 2020; and, Ed Reed, "Lebanon issues warning on Israeli licence plans," *Energy Voice*, June 30, 2020. The maritime border dispute has prevented Lebanon from maximizing its potential (so far disappointing) offshore gas assets, as the intransigence by Speaker of Parliament and Hizballah ally Nabih Berri has stymied American-led efforts to mediate the boundary dispute (Leah Pedro, "Israel, Lebanon, and Failed Natural Gas Negotiations," *FPRI Intern's Corner*, December 11, 2019). It is worth noting that Chevron also made a one million dollar pledge to the Lebanese Red Cross after the Beirut blast in early August 2020.

[17] Amiram Barkat, "IEC to Sell Cheap Imported Gas to Israeli Industry," *Globes*, June 1, 2020.

[18] Waylon Fairbanks and Peter Stevenson, "Israel-Jordan Gas Deal Details See Light," *Middle East Economic Survey*, August 30, 2019. See also: Hisham al-Bustani, "The Dependency Bargain, [Arabic]" 7iber.com, August 4, 2019.

[19] Waylon Fairbanks, "Jordan: Gas Oversupply Threatens Key Startups," *Middle East Economic Survey*, November 1, 2019.

However, public attention to the issue in Jordan seems to be limited for now. The Kingdom is still absorbed with the coronavirus challenge and the economic stress it has brought in its wake. In addition, in recent weeks, the regime has been responding to destabilizing demonstrations brought on by the arrests of the heads of the Teachers' Syndicate (25 July), and the closing of the syndicate for two years. These come after protests by the teachers about a suspension of wage increases they were promised when ending a month-long strike in late 2019. While these events are underreported due to the regime's gag orders imposed on journalists in Jordan, they seem to be widespread and intense (recent developments, including release of those arrested, may indicate an easing of the tension). Parliament is also not in session, with (controversial) elections for a new Parliament to be held in the fall.

The already low likelihood that the Jordanian regime would bow to public pressure and suspend the gas agreement with Israel (especially now that the issue of annexation of the Jordan Valley has been suspended), seems even more unlikely now that Chevron, a much larger, and presumably more politically and economically powerful, American player is involved in the deal.

Chevron's entry into the Israeli gas market in place of Noble marks the shift in that market from "start-up" to "regular production" phase. An American energy major's entry into the region should also increase the already high level of U.S. government interest and involvement in Eastern Mediterranean energy – the U.S. was a guarantor of the Israeli–Jordanian gas deal, and strongly supported the establishment of the EMGF, with U.S. Energy Secretary Rick Perry participating in its opening session – and regional security issues. Chevron's investment alongside major European energy companies already in the basin, marks further globalization of the sub-regional energy market, and improves the long-range potential for its proven producers, Israel and Egypt. These developments, however, may be delayed, due to the global economic recession brought on by the coronavirus pandemic, and concomitant decline in demand for energy and glut of gas supply. On the power politics side, it may add an American element (notably absent until now) to the already existing involvement of outside powers (at this stage, France, Italy, and Germany, in a mediating role) in the regional power competition over maritime boundaries and control of potential resources (currently between Turkey and Libya's GNA on the one hand, and Egypt, Greece, Cyprus, and Israel, on the other).

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