

Maariv (Eli Tsipori) - Chevron - Heart (Play on Chevron and Heartbreak in Hebrew) 28th August 2020 – Interview with Gina Cohen



You haven't heard about Chevron's arrival in Israel in the Israeli press but a conversation with Gina Cohen, an international expert on energy, clarifies that this may be the most important economic development of the decade and casts a dim light on the financial damages caused by so-called "social activists"

Are you aware that the second largest energy company in the US, and seventh in the world, has decided to enter Israel? Did you know that this was one of the most important economic developments to take place in the Israeli energy sector this year – if not this decade? I assume that with the exception of economic insiders, most of the public has not been aware of this as it was buried deep in the business papers. To understand how this happened and what the implications are for Israel, we spoke with Gina Cohen, an international expert on the global energy market. Cohen is acquainted with this market more than anyone else I know – including of course journalists who have become oil & gas "experts" and particularly "social" activists who have turned the debate about gas in Israel into a populist circus seasoned with Bolshevik perceptions.

1. How it all began?

"It's a very interesting story whose details have only become known over the last two weeks. Chevron decided at the start of the year to examine the possibility of buying some of the gas reservoirs in Israel – particularly Leviathan, the largest reservoir. It reached out to Noble, one of the reservoir's owners together with Delek, and even said they wanted to visit the Leviathan rig. Noble declined, both because it wasn't interested in selling its assets at the time and because its management thought that a tour of the Leviathan rig would create a media buzz with a message that isn't right for the company at his stage. That part fell through but it showed us something very interesting. Up until today, we didn't know whether Chevron was interested in Noble because of its licenses in the US or because of its assets in Israel. Now we can say that both the licenses in the US and the assets in Israel have equal weight."

"We have to understand: from Israel's standpoint, this is the biggest investor to ever come here. Noble is worth \$5 billion, whereas Chevron is worth \$170 billion, so the size has an impact of course. It has the money and the capability, and it is also very advanced in terms of new technologies."

2. What deal was eventually signed?

“Chevron decided to buy Noble as a whole. When do companies acquire buy other? When there’s an opportunity, when the shares of the acquired company fall but it still has assets, developed or not, and in Leviathan’s case we already have a developed reservoir. Chevron, the larger company, saw an opportunity and instead of drilling and developing itself, it acquired a company that already has drillings. Noble had run into serious problems even before the corona because it invested too much in shale oil in the US – it bought at a high price, which then went down. The corona also caused Noble’s share to sink by 80% from its level 5-6 years ago after it encountered cash flow problems and was even on the verge of bankruptcy. Chevron will pay, in a stock deal, \$5 billion and assume Noble’s debts of more than \$7 billion, therefore the total scope of the deal stands at nearly \$13 billion. It will be completed at the start of October.”

The bottom line, as Cohen describes it: Chevron is entering Israel through the purchase of an American company (Noble) but there’s a huge difference. Noble is, in American terms, a small, even very small, company; Chevron is a giant.

3. What is Chevron getting?

“Chevron will receive multiple shale licenses in the US and gas, lots of gas, because Noble has a lot of gas in the Eastern Mediterranean. The energy giants want to transition from oil to gas and renewables because oil is the most polluting, gas pollutes less and renewables like solar or wind are clearly the least polluting. That transition is the result of social-media pressure on energy companies to switch to less polluting sources but also, and perhaps especially, because of pressure from banks and investment funds. Banks that lend money and funds that invest have been tended in recent years to invest less in companies that engage with oil and recently even less in gas. On the other hand, they are very much interested in investing in renewables. In any case, and despite renewables, gas is the energy source that is expected to grow at the highest rate over the next 30-40 years, so Chevron is getting a lot of gas from Noble that will help it improve its image as a less polluting company.”

“What’s important for Chevron is that it is getting an admission ticket to a new region with additional potential for gas. It’s a relatively new region, there were no drillings here for decades, just the past ten years. It is getting Tamar and Leviathan, which contain 1,000 BCM combined. And it’s not just Israel. Chevron received three licenses this year in Egypt and Noble received two licenses in recent months, so Chevron will hold five gas drilling licenses in Egypt. It is also getting a gas reservoir in Cyprus, Aphrodite, where it will be a partner of Shell and Delek. In other words, Chevron will be part of the Israel-Cyprus-Egypt triangle, and in this triangle what it is interested in the most is Egypt and Israel. What’s good about Tamar and Leviathan is that they are already developed, because the greatest risk is the reservoirs’ development. It’s a lot of money: Leviathan’s development, for example, cost \$3.75 billion so it doesn’t need to invest billions more in developing them, at least not at this stage.”

“Egypt is a pretty good market for Chevron for several reasons. Gas demands in Egypt grew by 10% a year. Egypt has gas for households, gas for vehicles, gas for the petrochemical industry and it accounts for 65% of the total electricity consumption. In addition, the Egyptian petroleum minister worked at Chevron for 23 years, so he knows them and they know him, and that’s of course very convenient for them.

Chevron is also interested in LNG exports, an option that is expected to grow more than pipeline exports. Egypt has two LNG plants, one belongs to Shell, and Chevron is already in talks with Shell about how it can be used to export gas from Israel to Egypt.”

4. What are Chevron’s other advantages?

“The Europeans have become much more conservative, inter alia in the wake of the corona crisis. They prefer to invest a little less and believe more in renewable energy. American companies, in contrast, believe in oil & gas and less so in renewables. That’s why Chevron might agree to invest in a pipeline connecting Israel to Egypt – it’s very important. Chevron has the capability, the character and the resources to do this, if it decides to pursue that course.”

“Chevron is also bringing greater geopolitical stability into our region. In Jordan, for example, there is opposition to buying gas from Israel but they didn’t cancel the contract - because of American pressure. Now imagine American pressure not at the standard of Noble but Chevron – that’s 100 times stronger. Obviously the Jordanians would not want to go against Chevron, a company with annual sales of more than \$160 billion. So it will bring in a lot more quiet and help Jordan’s government, which supports the gas purchases from Israel, against the opponents.”

“It might also reassure the Turks, who are creating countless problems all across the region, both in terms of Aphrodite’s development and the Israeli-European project to build a 2,100 km pipeline to export gas from Israel and Cyprus in a bid to reduce the dependence on Russian gas. This is a very complex endeavor. It’s technically complicated and politically complicated, because of Turkey’s objections, it’s very deep and could cost \$7-\$10 billion. The Europeans, as I mentioned, have been much more conservative over the last year or two and want to invest less. The European Bank decided that starting in 2022 it will stop investing in gas projects and in my view they are moving towards renewables at an exaggerated rate. Perhaps, and I say this only as a possibility, if Chevron is in the picture, things will change.”

“In any case, once the deal is finalized, Chevron will first focus on trying to improve Leviathan, a 650 BCM reservoir that has signed contracts for a volume of around 150-200 BCM, so it still has 400-450 BCM which it can and needs to sell. That’s the first thing. Then they plan to carry out the five drillings in Egypt and later check with the state to see if it can receive additional licenses in Israel. I think that will only happen in the next stage.”

5. What damage did the opponents to the gas outline cause?

“One of the reasons why there is still a lot more gas to sell from Leviathan is because of the delays. Although the gas outline was eventually passed and led to competition in the market, there was a delay of 2-3 years. As long as Prof. David Gilo - then-Antitrust Commissioner – insisted on his position, he held up the outline and wasted precious time. During this entire period, the companies couldn’t sell gas abroad and the customers or governments had also said they can’t buy gas from someone who might not be the reservoirs’ owner in a number of years. Leviathan’s owners, even before the outline, were in negotiations with Jordan, the PA and mostly Egypt. Why mostly Egypt? Because we already have a pipeline between the two countries, and an opportunity opened up for Israel at the time: Egypt was left without enough gas and needed to buy LNG at prices that were very high at that point. Precisely while Israel

was busy with the gas outline and while gas prices in Israel and abroad were high, Egypt was forced to buy LNG. Egypt bought gas for \$7 billion during that period, exports that in fact went to waste as far as Israel. Even if Israel had sold half of the amount and at half the price, it would have reached \$2-\$3 billion and that alone would have covered Leviathan's entire development. It's a big miss."

"In October 2018, global gas prices began falling and with the start of the corona crisis in Q2 this year, they dropped to their lowest level in history. Spot prices are down to \$1 in Europe and \$2 in Asia. Longer term prices, in 15-year contracts, are higher and aren't supposed to change except in exit points. But as demands recovered, prices began going up 2-3 weeks ago to their current levels of \$4 in Asia and \$3 in Europe."

"The gas outline succeeded because it created competition which reduced prices. The price, for example, in IEC's agreement with Leviathan is \$4.79. The prices in Karish and Tanin – which Noble and Delek sold following the outline – are \$4.4 for IPPs that will start generating in a year, or longer. That happened as a result of competition."

"Tamar's anchor contract with IEC has a re-opener on 1.7.2021 and again on 1.7.2024. The price is currently \$6.4 and the parties will start negotiations to try and reach a new agreement on the price."

6. The events in the energy market demonstrate how the rule of clerks, combined with the populism and Bolshevism of social organizations backed by journalists with empty slogans, are causing tremendous harm to the Israeli market and consumers. The gas prices in IEC's anchor agreement reflected the real price environment at the time, being a long-term contract – and this has nothing to do with volatility. What do the populists expect? That we willingly cancel contracts with international companies and be exposed to giant lawsuits?

Moreover: the rule of the clerks prevented IEC at the time from adding a clause that would have enabled it to receive the lowest price in the market, over concerns about harming competition with IPPs. That hurt Israeli consumers and benefitted private stations which supply electricity solely to businesses. And perhaps worse of all: Israel missed an opportunity for exports worth tens of billions of shekels, particularly during a period of very high prices. That opportunity is long gone because the festival surrounding the gas outline delayed it for 2-3 years. And that, unfortunately, is the expensive price of "social" populism.