



Egypt's Energy Challenges and Their Political Implications for the War in Gaza

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EXECUTIVE SUMMARY: Developments in the Eastern Mediterranean over the past decade have placed Egypt at the center of a regional cooperation system regarding energy and political strategy. Gas discoveries in Egypt's economic waters, significant investments by the Egyptian government in the energy sector, the 2019 establishment in Cairo of a regional gas forum, and the presence of two existing liquefaction facilities in Egypt (in Idku and Damietta) all augur well for Egypt's ambition to be the regional hub for gas exports. The export of gas from Israel to Egypt also contributes to Egypt's energy security, both in terms of the regular supply of electricity to the local economy and the export of a significant amount of gas to Europe in exchange for foreign currency urgently needed in Egyptian coffers. The war in Gaza has added complexity to Egypt's policy towards Israel since the imports of gas from Israel are essential to its energy stability. Moreover, the Houthi attacks have decreased traffic in the Suez Canal and caused serious damage to Egypt's economy.

Egypt's energy problems worsened in the summer of 2023 when the authorities were forced to initiate power outages in response to heat-wave-induced high demand for electricity. Moreover, the country's gas discoveries proved disappointing. The Zohr gas field, which the Italian energy company ENI discovered in 2016 and was named the largest in the Eastern Mediterranean, turned out to be much smaller. Estimates

today are at about 11 TCF, which is roughly a third the amount announced upon the field's discovery. It is similar in size to Israel's Tamar field and smaller than Leviathan. Another discovery that turned out to be a letdown was the Orion field.

The war in Gaza caused further damage to Egypt's energy sector and affected the treasury in Cairo. When Egypt became an energy exporter in 2019, its dependence on gas imports from Israel increased. The quantities of gas exported from Israel have increased since 2020. In 2022, Israel exported about 5.8 BCM to Egypt, and by the end of 2023 those quantities had apparently increased slightly. The Israeli Ministry of Energy recently approved the increase of exports from Tamar and the expected implementation will be from the middle of next year.

Israel's decision to shut down the Tamar field at the outbreak of the war caused the Egyptians serious problems. In addition to having less gas supply available for the Egyptian economy, Cairo could not export liquefied gas to Europe, which made the country's economic situation even worse. The resumption of Tamar's activities in mid-November evoked a sigh of relief in Cairo (and in Israel, of course).

In addition to all the other troubles the war in Gaza has brought about, the mobilization of the Houthis in Yemen to help Hamas led to a drastic decrease in the traffic of ships through the Suez Canal, which caused another serious dent in one of Egypt's major sources of income.

An interim summary of the relationship between Israel and Egypt in the field of energy shows that exports from Israel are an essential component, both for Egypt's internal energy economy and for its exports to external markets, such as Europe and Turkey (the latter is estimated at about \$1 billion per year!). This allows the Egyptian government to receive a very important return in foreign currency. It should be noted that Egypt recently reached an agreement with the International Monetary Fund that slightly eases the repayment of its huge debts. The same goes for the European Union. The latter, which understands the great importance of maintaining stability in Egypt, rolled up its sleeves. Commission President Ursula von der Leyen announced an aid package in the amount of €7.4 billion to "help deal with the immigration problem and to increase the volume of gas exports from Egypt to Europe."

The expansion of trade relations, specifically in energy, between Egypt and Israel is extremely positive and important for strengthening the strategic relationship between the two countries. Israel has a clear interest in maintaining stability in Egypt and in deepening relations in as many areas as possible – especially the strategic one in view of the gas discoveries in Mediterranean waters. This is added to the countries' broader meeting of strategic interests in recent years and to the close and successful cooperation between their political and security systems, including at the highest levels. Still, Israel has criticized Egypt for not shutting down dozens of tunnels discovered by the IDF between Gaza and Sinai that were used by Hamas to smuggle weapons and other components.

The ongoing war in Gaza, and especially the Egyptian fear of an Israeli intention to "push the Gaza Strip to the door of Cairo," clouded the trust that had developed between the two countries and added tension among the security and political elite. The ongoing operation in Rafah is followed with great concern in Cairo, not necessarily because they oppose it but because they would have preferred that it be conducted with Egypt's (discreet) coordination and are concerned about Israel's apparent lack of an end game. Moreover, Cairo is gravely concerned that a significant worsening of the humanitarian crisis that is already prevailing in the Gaza Strip could lead to attempts by Palestinians to cross the border into Sinai.

It is important to stress that Cairo wants to bring about an end to the war, but not in a way that creates achievements for Hamas. This represents an extremely important strategic meeting of interests between Israel and Egypt. However, as stated above, the lack of clarity on Israel's "day after" policy makes it extremely difficult for Cairo to formulate its own solid and constructive policy. Worse, extreme and irresponsible Israeli statements, including from ministerial ranks, regarding Israel's intentions in the Gaza Strip greatly intensify Cairo's fears. It is therefore understandable that the Egyptians are working feverishly to bring about a deal for the release of hostages that will be accompanied by a temporary ceasefire. Their hope is that the truce would be prolonged and deepened and might even lead to an end to the war.

Will the extensive and close relationship in the field of energy, as described above, moderate tensions between Israel and Egypt after the war? I believe the answer is yes. Our mutual interest in continuing and

deepening our relationship is clear. At the same time, it must be assumed that Cairo fears that its dependence on Israeli gas, and the dire economic situation in Egypt, may encourage Israeli officials to try to take advantage of the situation to, say, bring about the migration (albeit temporary) of Palestinians from the Gaza Strip to Egyptian territory. In Cairo, they were particularly outraged by reports over the past few months, which are apparently well-founded, that Israel has acted to ease and perhaps even cancel Egypt's external debts in exchange for accepting Palestinians into its territory. Recall the words of President Sisi as he stood at the side of the German Chancellor during a visit to Cairo a few months ago: "The 105 million Egyptian citizens will not allow such a move."

Be that as it may, the discoveries of gas in the eastern Mediterranean, along with other developments (the Arab Spring, for example), greatly helped the impressive regional architecture that has been woven into the region in recent years. Israel has a clear interest in preserving it, including Egypt's central place within it.

The importance of the regional gas forum, the first regional framework of its kind to be born of a common meeting of interests of its member states, is very great. The forum conducts itself with great care and tries to consolidate cooperation between the companies operating in the region. Meetings at a political level, mainly of energy ministers, are held regularly. The Palestinian Authority is a member, and its participation was accepted without Israeli opposition. Lebanon was also invited to join, though it was understood that it would not be able to respond positively despite its clear interest in doing so. Since then, ideas have emerged as to how Lebanon could be involved, which again highlights the importance of the processes that have developed that contribute to regional stability. This is especially valuable after the naval agreement between Israel and Lebanon (October 2022), and continues to be so despite the fighting that has been going on between Israel and Hezbollah since October 8.

Israel, and the energy companies concerned, have a clear interest – both political and economic – in preserving and deepening the successful cooperation between Israel and Egypt in the field of energy. Israel would be wise to strengthen this cooperation, which plays a moderating role. It serves vital interests on the bilateral Israeli-Egyptian level as well as the regional one. Also, considering the current deep frost in the relationship

between Israel and Turkey, the regional arrangement, with its emphasis on Egypt and the Hellenic countries, takes on a new importance.

The current thaw in Ankara-Cairo relations is part of a broader Turkish effort to improve relations with some of the players it has confronted in recent years. In the longer term, after the war in Gaza is over, Israel and Turkey will have to try to return to a reasonable form of relations. Either way, the 45-year relationship between Israel and Egypt based on the 1979 peace agreement is a strategic cornerstone on both the bilateral and regional levels. The energy component contributes a great deal to this and the economic and political dividends must be preserved, all the more so under the current circumstances.

Ambassador (ret.) Michael Harari joined the Israeli Foreign Ministry and served more than 30 years in a range of diplomatic roles in Israel and abroad, including (among others) in Cairo, London and Nicosia. His final position abroad was as Israeli Ambassador to Cyprus (2010-2015). Today he serves as a consultant in the fields of strategy, policy and energy and lectures in the Political Science Department at the Jezreel Valley College.