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Will politics block development of the eastern Med?

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Drilling in the Tamar field in the Levant Basin © Getty Images

Eni's announcement that it has made a world-scale gas discovery off the Egyptian coast is undoubtedly good news both for the Italian company and for Egypt, even if the hype and the over-optimistic timetable that some are talking about need to be balanced by some consideration of the challenges still be to be resolved. But the discovery should have an even wider impact because it confirms the view that the Nile and Levant basins are the most prospective, underexplored areas in the world.

The discovery, named Zohr, is said to hold some 30tn cubic feet of gas, which if confirmed, would put in the list of the 20 largest gas fields across the world.

The first and obvious market for the gas lies within Egypt itself. The 82m Egyptians are short of energy – both in the cities where brownouts (when the electricity supply is deliberately cut) are common, and in rural areas where irrigation systems are essential if the country is not going to face a continuing food crisis. Power for desalination is essential. The gas could be used in power stations, through a new grid, or to produce petrochemicals.

But the questions are who invests and who pays. Getting the gas to shore should not be a problem because the infrastructure is in place. But beyond that much would need to be built from scratch.The years since the Arab spring began in 2011 have left Egypt impoverished.

The consumer price is the first issue. The price agreed between Eni and the Egyptian state gas company earlier this year of between $4 and $ 5.68 per mmbtu looks unsustainably high. The increase on the current price of $ 2.65 will suggest to many that the principal beneficiary of the new find is Eni rather than Egyptian consumers. With President Abdel Fattah al-Sisi's government still struggling to secure public support, the price looks vulnerable on both economic and political grounds.

The second possible market is through exports – but the European market is saturated and declining as Germany replaces gas with renewables and the Asia-Pacific markets would involve long and expensive LNG trade in the face of fierce competition from Australia, Russia and in the longer term East Africa. The margins available could be very limited.

Foreign investors could, of course, fund everything. They could build power stations and desalination plants and all the rest. But North Africa is not regarded as the safest place in the world by international companies. Libya, Tunisia and Algeria are all vulnerable to the spread of Islamic terrorism. The primary objective of the terrorists is to disrupt existing economic structures and to deter foreign investment and foreign visitors. That has been most visible recently with the June attacks on tourists at Sousse in Tunisia. That was followed this week only days after the announcement from Eni by a car bomb attack on the office in Tripoli that houses the company's joint venture with the Libyan State company.

Egypt itself has been relatively free of terrorist activity for the last few months but that has only been achieved by a very harsh crackdown by the Sisi government. The country, however, remains divided and there could be more trouble to come if the death sentences on former president Mohammed Morsi and about 100 other members of the Muslim Brotherhood were confirmed two months ago are ever carried out.

Development of the new find will not be easy and the Italian group and its contractors will be painfully aware that their facilities and staff will be obvious targets for those who want to disrupt the economy of North Africa and to establish some form of caliphate. Companies such as Eni are used to taking managed risks but, other than Syria, north Africa feels like the most dangerous place in the world at the moment.

Security considerations will delay development and add to costs. For all these reasons the suggestion that the field could be on-stream by 2017 looks very optimistic – four or five years is probably a more realistic timetable than two.

The wider impact of Zohr comes from the support it provides for the view that the Levant basin, which stretches under the Mediterranean northwards from offshore Egypt up the coast past Sinai, Israel, Lebanon and Cyprus and towards Syria and Turkey, could be one of the most prolific areas yet to be exploited.

In 2010, the US Geological Service published a study suggesting that the Levant Basin could hold some 1.7bn bbls of oil and 122tcf of natural gas. That is a tentative estimate based on a desk top analysis of geology rather than actual exploration. Since then the only tangible evidence for that view has been the discovery of the Leviathan field off Israel, which holds some 19tcf of natural gas, and the Tamar field with 9tcf, along with a small discovery off the shores of Cyprus. The problem is that in most areas within the basin there has been no drilling mainly because of political problems. Syria barely has a functioning government, while plans to drill off Lebanon's shores have been repeatedly postponed. Lebanon and Israel have no formal diplomatic relations and Sinai is a dangerously lawless territory.

The gas that has been found – including Leviathan – is undeveloped because export routes are unclear. The only developed field is Tamar, which supplies all Israel's current needs. Companies won't spend tens of millions drilling for oil and gas if there is no prospect of the resources ever being developed. In almost any other part of the world there would be a single development strategy for the region with common infrastructure on and offshore. Building multiple LNG facilities and ports would only add to costs.

Zohr confirms the view that the resources under the eastern Mediterranean are considerable. It will be fascinating now to see which, if any, of the companies with the necessary capability to develop deep water resources will have the nerve to get involved.

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