



Eni asset disposal – impact on Cyprus EEZ

Description

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Eni, the Italian multinational energy company, published its ‘Capital Markets Update’ on 14th March focusing on ‘a distinctive strategy to address the challenges and opportunities of the energy transition’ while rationalizing and rebalancing its upstream activities to focus on assets that are core to its portfolio. The company aims to reduce Scope 1, 2 and 3 emissions by 35% by 2030, 80% by 2040 and achieve net-zero emissions by 2050. Scope 1 and 2 are emissions from the company’s operations, while Scope 3 covers emissions from the products it sells.

To achieve this, Eni will have to divest at least some of its oil and gas assets in the coming years. It has also committed to “building new, high-return, high-growth activities related to the transition”. This means increasing investment in low-carbon businesses. To achieve these goals, it aims to generate a net cash inflow of €8 billion over the next three years, with \$4.3 billion to come from non-core divestments in its global upstream oil and gas business.

Although Eni has not provided details, press reports suggest that assets that could be candidates for this divestment plan include some operations in Alaska, Indonesia and Cyprus.

Announcing the plan, Eni’s CEO, Claudio Descalzi, said: “We are facing the challenges of the energy transition with a distinctive and value-creating strategy that meets the needs

of energy security, affordability and decarbonization. We are significantly increasing our cash flows while differentiating our cash sources, reducing our risks and expanding into new areas of opportunity related to the energy transition.”

The plan would see Eni “divest smaller projects that may be attractive to local buyers, while also considering the sale of stakes in some major projects”.

Eni has already agreed to sell upstream assets in Alaska to US energy company Hilcorp. In June, Eni sold its 10% stake in Italian engineering firm Saipem. It is also reported to be considering selling up to 30% of its exploration business in Ivory Coast. These three sales could raise up to \$2 billion.

Although Eni has not mentioned selling its assets in Cyprus, Bloomberg and others seem to suggest that this is a strong possibility. These include the Cronos 2.5 tcf, Zeus 2-3 tcf and Calypso 1-1.5 tcf gas fields in Block 6. These are indeed small and could be attractive to companies looking to expand their operations or develop new business in the Eastern Mediterranean.

This could also explain why Eni has not yet submitted a development plan for Cronos, although its CEO promised to do so ‘soon’ at his meeting with President Christodoulides at the end of April.

This year has seen unprecedented problems for Eni’s operations in Egypt. Zohr is now estimated to have only 275 bcm of proven reserves, less than a third of the 850 bcm of in-place reserves Eni announced when the gas field was discovered in 2016. Gas production at Zohr has now fallen to around 56 mcm/d and is expected to fall further to 45 mcm/d – half its design capacity – by the end of 2024. This has contributed to Egypt’s gas shortages, forcing Eni to halt LNG from the Damietta gas liquefaction plant. On top of these problems, the drilling of Eni’s highly anticipated Orion well earlier this year was unsuccessful.

At this stage, Eni has not confirmed how it intends to proceed with further asset sales, and it currently denies that it is considering withdrawing from its activities in the Cyprus EEZ.

However, if it decides to include its Cyprus assets in this process in the future, this could lead to further delays in the development and exploitation of gas fields in the Cyprus EEZ. It is not clear that TotalEnergies is prepared to step in and buy Eni's stake in these fields, and there is no indication that other companies are waiting in the wings to do so.

We should remember that last month Energean sold its gas assets in Egypt. These were bought by the US firm Carlyle International Energy Partners, which focuses on developing resources in the Mediterranean. Carlyle or other such companies may be interested in such an opportunity, but it remains to be seen.

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