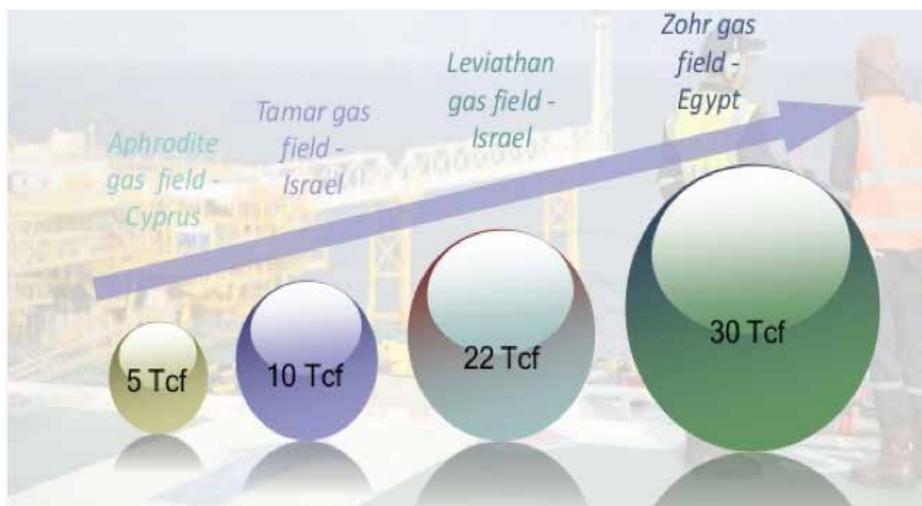


*Changing dynamics  
of hydrocarbons and  
geopolitics:*  
Time for an East  
Mediterranean Energy  
Community?



# *Changing dynamics of hydrocarbons and geopolitics:* Time for an East Mediterranean Energy Community?



The Eastern Mediterranean offers a vast opportunity for natural gas development and regional integration but it is also a hub of political uncertainty, economic instability and military conflict. New producers and consumers, the rise of shale gas and LNG, setbacks in nuclear power's renaissance, climate change constraints, new green energy initiatives, volatile prices, declining hydrocarbon investments and heightened tensions all play a role in prompting us to think in different terms about the region.

Positive thinking leads us to believe that the massive natural gas reserves in Israel, Egypt, Lebanon and Cyprus could have a transformative effect over decades, delivering stability, incentivising peace and creating the jobs that young people across the eastern Mediterranean so desperately need.

## The Decision – Maker

### Changing dynamics of hydrocarbons and geopolitics: Time for an East Mediterranean Energy Community?

However, it is a region with so many complicated problems. Migrants are streaming through the region in an attempt to reach the safer and more prosperous countries further west where the political will to absorb them is rapidly disappearing after several heinous ISIS-inspired attacks. The perilous situation of the Greek economy, the febrile political atmosphere in several Western Balkan countries, escalating violence in Syria and the evolving Turkey-Russia-Israel relationships continue to cast a shadow over the region's security, not least its energy security.

It would be a mistake to allow these crises to overshadow the vast potential for regional cooperation and economic integration in energy. Through a combination of vision, energy and courage in eastern Mediterranean, energy can, for perhaps the first time, become a motivator and catalyst for cooperation and security.

There are currently many actors on the stage driving and affecting energy and geopolitics in the eastern Mediterranean including Israel, Egypt, Cyprus, Turkey, Greece, Lebanon, the US and the EU.

An unexpected new player in the region is Russia, which has also entered into the already crowded chessboard game in the region. The Kremlin has tried repeatedly to establish a foothold for Russian companies in the development of Israel's gas sector but no tangible results materialised. But recent

changes in Israel suggest that now the time is right: Russian-born Avigdor Lieberman's appointment as defense minister will surely play an important role in strengthening relations in the field of energy with Russia. Meanwhile, the Israeli prime minister Binyamin Netanyahu said on 7 June 2016 in Moscow that Israel's doors are open now to all companies that have substantial experience in developing gas fields, including Russia's.

There is already a Russian company in one of Syria's offshore blocks. Novak, Lukoil, Gazprom Neft and Zarubezhneft have all received requests from Syria to help rebuild the country's oil and gas industry.

What Russia wants to achieve in the eastern Mediterranean is anybody's guess. Russia could enter into the Israeli gas sector either by acquiring an upstream asset (such as Tanin, Karish or part of Leviathan) or by participating in infrastructure or export activities.

Russia could also bid for an upstream block in Cyprus's ongoing licensing round. And it could also easily secure an upstream block offshore of Lebanon when the bidding round is opened. And Russian influence may grow in Egypt's energy sector, in particular with respect to gas. Moscow is already involved in Egypt's gas exploration, development and production. Rosneft began selling LNG to Egypt in May 2016. Mikhail Fridman's company, DEA, has a 35 percent share in the country's biggest natural gas project – the \$12 billion West-Nile Delta Project.

The probability of Russia getting a “no, thank you” reply from all those countries seems to be quite low. Increasing Russian presence in the Eastern Mediterranean could help control the direction, timing and volume of gas exports from the region.

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One major hurdle in the region is out of the way now. Turkey and Israel finally signed a reconciliation deal at the end of June 2016 aimed at normalising relations after a six-year hiatus. Turkish and Israeli private-sector companies are discussing a possible gas pipeline project to transport natural gas supplies to Europe from the Leviathan gas field, which holds an estimated 620 billion cubic meters of gas.

The Noble Energy-Delek partnership, which has discovered natural gas in Israel's territorial waters, appears to have made considerable progress in planning shipments of natural gas to Turkey, Europe and other high-value markets.

What a difference a giant discovery makes. Eni's 30-Tcf discovery offshore Egypt (Zohr) has given an electric jolt to Israel to entangle Noble Energy from regulatory hurdles and begin the development of its 22-Tcf Leviathan field, allowing Tel Aviv to place the first stake in the eastern Mediterranean gas export market. Egypt exported natural gas to Israel until it cancelled the agreement in 2012 as Egyptian wells became depleted and the pipeline carrying the gas was subject to repeated sabotage.

Cairo has said any gas import deal with Israel should include resolution through international arbitration. Israel and Egypt are nearing a compromise settle for half of the \$1.73 billion fine Egypt was ordered to pay Israel as compensation, so talks on exporting Israeli offshore gas would sweep away a major obstacle to a multi-billion-dollar natural gas deal.

Israel has painted gas exports to Egypt and other nations in the region as a strategic imperative in a region rocked by strife, and removing this obstacle would be crucial to the export deals it seeks to clinch and cement its ties with its closest ally in the region. Energy-hungry Egypt needs fuel until it develops its own newly discovered fields, and it can use an idle gas pipeline there to transfer Israeli fuel for export to third countries.

The most coherent commercial logic points in one direction, which is to combine the gas resources of Israel, Cyprus and Egypt, at least initially, to process them jointly and to involve Turkey as both customer and conveyor, but development in such a manner faces considerable geopolitical obstacles, notably concerning transit in Cypriot waters or on Cyprus itself.

The pipeline project to carry Israeli gas to Turkey has to go through the exclusive economic zone of Cyprus. The Cyprus problem cannot be resolved without also solving the exclusive economic zone issue and unless that issue is settled, the pipeline project cannot be realised.

For a realistic gas pipeline from Israel to Turkey the first condition is the economic feasibility of the project. In order to develop the Leviathan field a final investment decision needs to be taken and then financing should be secured, which means a purchase and sales agreement should be signed.

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Headaches come in many fronts and in different intensities – technical, commercial, political and geopolitical. Zigzag policies and a lack of gas export infrastructure in Cyprus and Israel have delayed the development of several discovered fields to date, which in turn has prevented possible exports. Even if the final investment decisions are made today, gas from the Leviathan and Aphrodite fields may not be able to compete with Russian pipeline gas in Europe. Iraqi Kurdish, Iranian and Azeri gas as well as LNG supplies are competitive vis-à-vis eastern Mediterranean gas at the moment..

Geopolitical headaches turn out to be intense and frequent. Energy cooperation played a key role in the emergence of two tripartite alliances: Greece-Cyprus-Egypt and Greece-Cyprus-Israel. In the meantime, Egypt-Israel relations have improved. High-level political and technical meetings have reinforced these tripartite summits, bringing the most senior Greek and Cypriot officials together with counterparts from Israel and Egypt. Eventually it would not be too surprising if a quartet is formed.

Now we are witnessing the build-up of a new strategic relationship between Russia and Israel, even though the two sides differ considerably on Syria and Iran. Netanyahu has met Russian president Vladimir Putin four times in nine months. This is happening at a time when relations between Russia and the West are at possibly their lowest point since the collapse of the Soviet Union in 1991. Hydrocarbon resources in the Eastern

Mediterranean, the only common denominator for the countries in the region, offer big opportunities in terms of energy security, economic prosperity and regional cooperation. Only time will tell whether they will be a force that unites or one that fuels conflict. What needed to help avoid turning controversies into a possible constructive cooperation and strategic partnership is a balanced, pragmatic approach through a frank dialogue..

An energy community? It is high time to propose a regional energy champion to advocate integration and partnership, dispute settlement, data sharing, analysis and engagement with key stakeholders in a dynamic and informal setting, free from political animosities and tensions. This champion is the proposed Eastern Mediterranean Energy Community (EMEC).

The possibilities for EMEC are limited only by the political short-sightedness that has often characterised the region. When countries start to identify common interests and work towards mutually beneficial outcomes, the dividends are dramatic. In this respect the EU is a prime example.

EMEC should begin life first and foremost as a vehicle for exploration, extraction and export, but as it grows in scope it will become an important focus of energy diplomacy, research and investment.

But it is not only the eastern Mediterranean that will benefit from the development of EMEC. The knock-on effects on the EU could be substantial: reliable and accessible energy supplies, less dependence on certain markets for hydrocarbon imports and a more peaceful and stable periphery. The assumed involvement of Cyprus – where reunification of north and south is now finally a serious possibility – would also serve as a bridge to the EU politically.

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This initiative should be established first at an informal level, bringing together energy companies, industry specialists, academics, security experts and the financial sector. Its development and success as a platform for developing energy possibilities would then bring governments on board, as members and observers, through annual ministerial meetings. A small secretariat guided by a rotating presidency would manage its working programme.

Major oil and gas projects in the region are progressing slowly. The Aphrodite field off Cyprus will remain underdeveloped for as long as the island remains divided. Israel's Leviathan and Tamar offshore projects show much promise, as does Egypt's Zohr field, but political and financial constraints are hindering their full potential.

Lebanon, Syria and Turkey too have reported interesting discoveries offshore but they too suffer from similar constraints. The regional export infrastructure is also poorly developed and plans for the future lack a cohesive, integrated vision. A coordinated, long-term approach fostered by EMEC would enable the eastern Mediterranean to exploit its advantages and become an energy powerhouse.

Turkey's role is critical to the success of regional energy integration. In fact, Turkey is likely to use this development to consolidate its emergence as the key regional power, while simultaneously seeking progress on relations with the EU – which means progress over Cyprus too. The recent news that the EU and Turkey will open accession negotiations on the economic policy chapter appears to confirm Ankara's dual-pronged approach.

Furthermore, the existence of an Eastern Mediterranean Energy Community would undoubtedly prevent bilateral tensions (such as the Russia-Turkey aggravation) from disrupting energy co-operation, by locking in parties to a process of dialogue and dispute resolution. EMEC can build on models of cooperation already in existence to avoid unnecessary delays and duplication.

Anyone who travels regularly across the Eastern Mediterranean, as we do, cannot fail to be struck by the many commonalities of culture and shared history. One particular common interest is the pursuit of economic prosperity and political stability in a region where, notwithstanding these cultural similarities, such progress remains elusive. EMEC offers a path towards both goals by placing energy policy at the heart of regional cooperation.

Our discussions with key stakeholders in the region and beyond have helped map out a vision for EMEC, and we believe the time is ripe to make this concept a reality. With goodwill, focus and a pragmatic pursuit of common interests, EMEC could become the core of regional economic integration – and nowhere is this aspiration more important than in Brussels, which could do with some good news after a tide of crises in the past two years.

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