

ENERGY DISCOVERIES IN THE EASTERN MEDITERRANEAN: CONFLICT OR COOPERATION?

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The discovery of oil and natural-gas reserves in the Middle East at the beginning of the twentieth century changed the fate of the region. From a backwater of international politics, the Middle East became central to international strategic rivalries. Almost a century later, energy discoveries in the Eastern Mediterranean are unlikely to bring about such tectonic shifts in the strategic fortunes of the Levant. Yet they have generated a fresh interest in their potential impact on existing regional disputes and power constellations.

The recent discovery of sizable quantities of natural gas in the seabed between Israel and Cyprus has added to the complexity of international politics in the region. Cyprus and Israel are expected to be the first two states to benefit, as they have already signed large contracts for exploration and drilling projects that would soon turn them into net energy exporters. The possibility of discovering further energy reserves has revived the question of delineating the exclusive economic zones (EEZs) of all littoral states in the Eastern Mediterranean and added one potential regional dispute. Turkey's role has been

important, not only because it is one of the region's littoral states and a large energy importer, but also because it could serve as a transport hub for the delivery of extracted hydrocarbons to the world market. Nevertheless, the Cyprus question, disputes over the delineation of the EEZ and Turkey's frozen relations with Israel have deterred regional cooperation, despite the positive effect that it could have, not least for European energy security.¹

RELATIVE VS. ABSOLUTE GAINS

Will the energy bounty contribute to an escalation of bilateral conflict or eventually lead to cooperation that could have a crucial positive spillover effect on longstanding regional disputes? The energy bounty has the potential to lure some actors to take more obstinate positions in their bilateral conflicts. On the other hand, it may contribute to the emergence of economic synergies that render existing conflicts irrelevant. The prospect of cooperation in the field of energy adds an extra dimension to longstanding international disputes and can be considered a trigger for further cooperation. In line with Duncan Snidal's argument, this study argues that the inclu-

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sion of several international actors — the multilateralization of the monetization project of energy resources in the Eastern Mediterranean on both demand and supply sides — is likely to render emphasis on relative gains counterproductive.² It could eventually lead to a configuration of national interests closer to “absolute gains” approaches.³ Hence, seeking a solution that would include the core parties of Cyprus, Israel, Greece and Turkey — and in principle remain open to the eventual inclusion of Lebanon, the Palestinian Authority and Syria — would be the best policy option.

A CHANGING STRATEGIC GEOMETRY

As some modest discoveries, known as Yam Tethys, off Israel’s Mediterranean shore decades ago had only a minor influence on its energy autarky, Israel continued to be dependent on Egypt for its energy supplies. While Israeli-Egyptian relations have generally been smooth since the 1978 Camp David accords, the risk of regime change in Egypt posed a formidable challenge to Israeli security. Natural-gas supply to Israel was occasionally interrupted due to sabotage inside Egypt, in particular following the collapse of the Mubarak regime in 2011.⁴ These concerns were relieved with the discovery of the Tamar natural-gas field in 2009 and of the Leviathan natural-gas field in 2010 within the Israeli EEZ. Both discoveries became game changers, as they could transform Israeli power generation, reduce dependency on crude oil⁵ and turn Israel from a net importer of energy to a prospective net exporter.⁶ This shed light on the energy potential of the whole Levantine basin,⁷ including Cyprus, Lebanon, Syria and the Palestinian Territories,⁸ and triggered additional exploratory drilling. The 2011

discovery of the Aphrodite natural-gas field by Noble Energy, a company already operating in Israel, within the EEZ of Cyprus triggered major policy developments and attracted global attention. It was speculated that this was the harbinger of the discovery of even larger reserves in the Eastern Mediterranean.⁹ As the production from the Tamar natural-gas field was launched in 2013 and the beginning of production from the larger Leviathan field was expected in the following years, the question of how to monetize the Israeli natural-gas output became pertinent. The first sign of Cypriot-Israeli energy cooperation occurred when the Israeli company Delek became a partner in the consortium developing the Aphrodite field. Meanwhile, the Republic of Cyprus in January 2012 auctioned additional plots to several leading energy companies. Opening the exploration and extraction operations to a multitude of international investors was meant to reinforce the political viability of the project. Despite Turkey’s opposition and threats to blacklist the companies that participated in the public tender, major international energy companies such as Total and ENI participated and won tenders.

From a diplomatic perspective, it was hoped that cooperation among Cyprus, Greece and Israel would consolidate an emerging strategic partnership.¹⁰ On the other hand, uncertainty about the size of the natural-gas fields had a major impact on project discussions. The options that excluded Turkey required a substantial minimum quantity of marketable natural-gas volumes in order to become economically feasible. The size of the energy reserves could be critical for monetizing Cypriot energy resources. While the interest of the United States in the development of the Eastern Mediterranean energy sector was

obvious,¹¹ different strategic views were juxtaposed. Some viewed the discovery of natural gas as a windfall opportunity to change the strategic calculus of the Cyprus question and corner Turkey and advocated a new security order in the Eastern Mediterranean.¹² Others considered the prospective natural-gas wealth as an opportunity to build interdependent links and fund the inevitable cost of any negotiated settlement of the Cyprus question.¹³ As economic considerations were among the main reasons for the rejection by the Greek Cypriot community of the 2004 UN Annan Plan, the newly discovered natural-gas fields could help remove such apprehensions. Whether economics would fall hostage to “high politics” or help reframe the regional strategic geometry remained to be seen.¹⁴

MONETIZATION OPTIONS

Among the possible solutions suggested for the monetization of the energy resources discovered in the Levant basin,¹⁵ three have gained the most traction. The first was the development of natural-gas liquefaction facilities in Israel and the Republic of Cyprus. Israel has considered building its own liquefied natural-gas (LNG) facility onshore or offshore or alternatively a joint LNG project with the Republic of Cyprus on Cypriot territory. The development of an onshore LNG facility appeared to be the preferred option of the Cypriot government and several pundits.¹⁶ Building a unit at Vassilikos, near Limassol, was expected to provide flexibility and access to multiple energy markets within and outside the Mediterranean. On the other hand, the exorbitant cost of the project was one of the biggest hurdles, as was the securing of sufficient natural-gas quantities through either additional Cypriot discoveries or the commitment of enough Israeli natural gas

to render investment in the LNG facility viable. While the original expectation was that the size of the Aphrodite field ranged between 3.6 and 7.6 trillion cubic feet (tcf), this was reduced to less than 5 tcf following exploratory drilling in September 2013. As initial optimism was trimmed and Israel appeared unwilling to agree to a joint project, the viability of the LNG-plant investment became dependent on the discovery of additional natural gas reserves within the Cypriot EEZ or the commitment of sizable quantities of Israeli natural gas.

While building an LNG terminal on Israeli soil would involve major security concerns, as it could become a prime target of a terrorist attack, making Israeli exports dependent on good relations with Cyprus was another source of anxiety for Israelis. Building an offshore LNG unit remained a possibility, but at an exorbitant cost. A second alternative was the construction of a pipeline from Israel via Cyprus to Turkey, economically the most viable option, given the relatively limited amount of investment required. Turkey had already developed a comprehensive pipeline network, so access to European markets would be facilitated. In Turkey, the natural gas would be transported through the existing network to European markets or consumed in Turkey, itself a sizable natural-gas importer. Turkey had already built pipeline connections with key natural-gas exporters, such as Russia, Azerbaijan and Iran, and additional projects had been negotiated with its Arab neighbors. Israeli and Cypriot gas could support the feasibility of additional pipeline projects, which were having difficulty in securing sufficient volumes of gas. On the other hand, such a project could hardly bear fruit without the resolution of the decades-long Cyprus problem and the establishment of a bizonal, bicommunal

federation, according to the provisions of UN Security Council decisions and the negotiation process.

A third option would involve the construction of an underwater pipeline from Israel and Cyprus to Crete and from there to continental Greece. While this project would consolidate the close strategic, economic and cultural relations between Greece and Cyprus and their emerging partnership with Israel, its cost and technical difficulties were high. The feasibility of the project depended on the discovery of large additional natural-gas reserves in the Eastern Mediterranean seabed. In addition, assuming that the Cyprus issue could be resolved, its market rationale would be questionable, given that Turkey would be a much bigger natural-gas importer than Greece.¹⁷

The question of how to transport the natural gas that would be produced in the Israeli and Cypriot EEZs to the international markets highlighted these contradictory considerations. While building a pipeline to Turkey, a major regional consumer with the ambition to become an energy hub,¹⁸ appeared to be the most rational decision from an economic point of view, this choice faced formidable political obstacles: the age-old Cyprus question and the sharp deterioration of Turkish-Israeli relations over the last years. Moreover, a Levantine land route was precluded, given the animosity among Israel, Syria and Lebanon and the fact that the trans-Arab pipeline built to transport Egyptian natural gas to the Arab Middle East and Turkey was not operational following the outbreak of the “Arab Spring.” Alternative solutions were suggested, such as the construction of LNG facilities in Israel and Cyprus or the construction of undersea pipelines connecting Israel, Cyprus and Greece. But the

possibility of a pipeline connecting Israel and Turkey remained the most feasible one. Politics appeared to take clear precedence over economics; economic cooperation seemed stillborn.

THE CYPRUS QUESTION

The Cyprus question remained the most serious challenge turning the natural-gas discovery into a trigger for regional cooperation in the Levant. Ever since the 1950s, Cyprus has constituted a key security concern for Greece, Turkey and Great Britain, undermining the prospects of regional economic cooperation. In the late 1990s, the European Union became one of the key actors in catalyzing Greek¹⁹ and Turkish²⁰ perceptions of the Cyprus issue and supporting a compromise solution. The prospect of EU membership for Turkey and Cyprus in the early 2000s briefly raised optimism about the possibility of a breakthrough. However, the failure to reach an agreement in the 2004 UN Annan Plan referendum meant that Cyprus’s prospects of EU membership would be decoupled from the resolution of the conflict. Post-2004 negotiations failed to generate any momentum, and hopes that a series of confidence-building measures (CBMs) could change the course of events were dashed.²¹ While the *de facto* division of the island posed a risk to the completion of any project, the legality of natural-gas exploration by the Republic of Cyprus was contested by Turkey. The rights of Turkish Cypriots to the energy resources discovered off the southern shore of Cyprus were at the heart of the controversy. The Republic of Cyprus remains the sole internationally recognized state on the island representing both the Greek and the Turkish communities; however, Turkey has refused to recognize the Republic of Cyprus since

1963 and has recognized only the “Turkish Republic of Northern Cyprus” (“TRNC”) since 1983. Nevertheless, it continues to claim for Turkish Cypriots the rights that emanate from the 1959-60 founding treaties of the Republic of Cyprus. In other words, Ankara argues that the Republic of Cyprus had no right to conduct energy exploration and production activities off its southern coast without the explicit consent of Turkish Cypriots.²²

This position appeared to contradict Turkey’s refusal to recognize the Republic of Cyprus and by implication the validity of its founding treaties. Given that Turkey had proceeded with the recognition of the “TRNC” in 1983, claiming that Greek Cypriots had lost all sovereignty rights in the northern part of Cyprus, it appeared hard to convincingly argue that Turkish Cypriots maintained their sovereign rights in the south, in particular at the southernmost extremity of the Cypriot EEZ in the Mediterranean, where the Aphrodite gas field is located. Nevertheless, Turkey’s opposition raised the political risk of the project, although it was widely believed that Turkey’s objections would remain verbal and nonviolent.

Meanwhile, Turkey put forward its own marine energy exploration program to contest, in practice, the Cypriot EEZ in the Eastern Mediterranean.²³ Following the September 2011 signature of a bilateral agreement between Turkey and the “TRNC” on the delineation of their continental shelves, TPAO (*Türkiye Petrolleri Anonim Ortaklığı*), Turkey’s national petroleum corporation, signed in November 2011 a contract with the “TRNC” to conduct exploration in the sea between Turkey and Cyprus. Meanwhile, a Turkish maritime exploration vessel sailed off the southern shore of Cyprus with the aim of

conducting exploration in plots that the Republic of Cyprus had allocated for exploration but Turkey also claimed. The Republic of Cyprus submitted formal protests against these exploration activities, but Turkey fell short of actively obstructing Cypriot exploratory activities in the south.

Meanwhile, the January 2013 election of Nikos Anastasiades to the presidency of the Republic of Cyprus raised new hopes for the successful resumption of peace talks. Anastasiades was the single major political-party leader to give his full support for the abortive UN Annan Plan in the 2004 referendum. While this cost him a great deal on the domestic front, it consolidated his profile as a moderate regarding the Cyprus question. Yet his rise to the presidency coincided with the outbreak of the Cyprus economic crisis. This inevitably put the Cyprus question on the backburner.²⁴ As peace talks were resumed in February 2014, it was hoped that natural gas could become a critical instrument in negotiating a breakthrough.²⁵ This optimism was not, however, shared by all observers.²⁶

EEZ CONTROVERSY

A spillover of the natural-gas discoveries off the shores of Cyprus and Israel has been the resuscitation of an age-old dispute between Greece and Turkey regarding the delineation of their respective maritime zones, territorial waters, airspace and continental shelf.²⁷ The exclusive economic zone (EEZ) is a relatively new item on this list.²⁸ This is due to the fact that the concept acquired legal backing only with the signing of the UN Convention on the Law of the Sea (UNCLOS) in 1982 in Montego Bay, Jamaica.²⁹ While Greek-Turkish exploratory talks began in 1999 with the aim of establishing a

common basis for the resolution of the dispute through adjudication, introducing the question of the EEZ appeared to be a game changer. While it is true that the rights emanating from the continental shelf and the EEZ overlap up to a point, there remained substantial issues to be resolved. As several Greek political leaders and analysts argued that Greece should unilaterally declare its EEZ in the Aegean and Eastern Mediterranean³⁰ regardless of Turkey's concerns and objections, the prospect of a crisis in Greek-Turkish relations loomed. Meanwhile, Turkey objected to the EEZ delineation treaties that Cyprus had concluded with Egypt, Israel and Lebanon. It also claimed that the Greek islands of Megisti (Kastellorizo), Agios Georgios (Ro) and Strongyli should have no influence on the delineation of the Greek EEZ in the Eastern Mediterranean. Under these circumstances, the prospect that the seabed of the Eastern Mediterranean could hold sizable energy reserves was expected to raise the stakes and complicate a mutually agreed-upon delineation of the EEZs in the region. Unilateral moves by littoral states could potentially lead to regional tension and conflict, though the prospect of referring the delineation to international adjudication appears dim at the moment.

ISRAELI-TURKISH RELATIONS

Frosty relations between Israel and Turkey have made cooperative solutions on the monetization of energy resources in the Levant even more complicated. The two had enjoyed a close diplomatic relationship that dated from the founding of Israel; Turkey was one of the first to recognize its independence. This relationship was upgraded in the mid-1990s to a strategic partnership that aimed to offer

a model; an "Israeli-Turkish axis" was meant to constitute a new security order in the Middle East.³¹ This trend held steady in the first years of the Justice and Development Party (AKP) administration, despite the expectations of many who pointed to the Islamist origins of the AKP's leading cadres and their anti-Israeli sentiments. Turkey was keen to mediate the withdrawal of Israeli troops from the Golan Heights and achieve conflict resolution between Israel and Syria. Yet the failure of the Golan Heights peace initiative in spring 2008 and Israel's Operation Cast Lead, in 2008-09 in Gaza had a deleterious effect on bilateral relations.

Following the January 2009 public clash between Prime Minister Recep Tayyip Erdoğan and President Shimon Peres at the Davos World Economic Forum, the Gaza flotilla incident brought the relationship to its lowest level. The Israeli armed forces intercepted the *Mavi Marmara*, a Turkish vessel carrying activists with humanitarian aid for Gaza, in defiance of the Israel embargo, killing 10 of its passengers. The public outcry caused both countries to withdraw their ambassadors. Relations remained at rock bottom for years, as Turkey demanded an official apology and monetary compensation for the victims. Only due to the strong personal involvement of President Barack Obama did Israeli Prime Minister Benjamin Netanyahu apologize in March 2013 to Erdoğan for the loss of Turkish lives. Yet even this apology was not sufficient to thaw the ice, and the compensation issue was not resolved. Bashing the other side served the domestic political agendas of Erdoğan and Netanyahu despite the potential benefits of cooperation in monetizing the energy resources of the Levantine sea basin. The outbreak of new prolonged

hostilities between Israel and Hamas in the Gaza Strip in July 2014, the Israeli “Operation Protective Edge” and the killing of hundreds of civilians brought Israeli-Turkish relations to a new low, smashing any faint hopes for a rapprochement in the foreseeable future.

THE ROLE OF THE EU

The role of the European Union was also of primary importance. Greece and Cyprus are full members, while Turkey has been a candidate state since 1999 and in accession negotiations since October 2005. The question of EU energy security is another primary variable.³² As the EU is looking to diversify its sources of natural gas, gaining access to Eastern Mediterranean energy resources would be a welcome development from the security perspective and might even lead to the establishment of a new European energy corridor.³³ The EU could become a key supporter and sponsor of energy projects aimed at bringing Levantine resources to the European market.³⁴

This does not mean that the EU would support projects without a sound economic and political rationale. The European economic crisis has mitigated the demand for ever-growing quantities of natural gas. In addition, the discovery of new energy resources such as shale gas and the rising role of renewable energy resources have the potential to revolutionize energy markets and change market requirements. This would not mean that the EU would cease to be interested in energy projects. Yet it could mean that its interest and, in particular, its commitment to the financing of energy infrastructure and pipeline projects could not be independent of fundamental feasibility considerations. If the project made no sense economically, it would be highly unlikely that the EU would rescue it.³⁵

THE ROLE OF EGYPT AND THE U.S.

The series of uprisings called the Arab Spring led to a reconfiguration of regional balances.³⁶ The Egyptian uprising of 2011 and the rise of Mohammed Morsi to leadership in Cairo posed questions about the sustainability of good relations among Egypt, Israel and Cyprus. As the Morsi government developed a close working relationship with Turkey, it decided not to take sides in the Greek-Turkish dispute over the delineation of maritime zones in the Eastern Mediterranean and refused to continue exploratory talks with Greece without the participation of Turkey. Signals were even given that the new government might consider annulling the bilateral agreement the Mubarak regime had signed with the Republic of Cyprus delineating the EEZs of the two states. In fact, a bill was submitted to the Egyptian lower house by a pro-government member of parliament for the abolition of that agreement.³⁷

Yet after the military coup of July 3, 2013, the new Egyptian government distanced itself from Turkey. The sharp deterioration of Turkish-Egyptian relations in the aftermath of the coup had an impact on the question of delineation of the maritime borders in the Eastern Mediterranean. The virulent criticism of the coup by Prime Minister Erdogan contributed to a U-turn in Egyptian policy regarding maritime zones in the Eastern Mediterranean. The exploratory talks for the delineation of the Greek-Egyptian maritime zones, which were suspended following the rise to power of the Morsi government, were expected to resume following the September 2013 meeting of Greek Foreign Minister Evangelos Venizelos with his Egyptian counterpart. This issue proved to be extremely sensitive, as the principles for the delineation of the Greek and Egyptian EEZs in

the Eastern Mediterranean could serve as precedents for the delineation of the Greek and Turkish EEZs in the same region.

While it would be too early to predict how Egyptian-Turkish relations will unfold, the level of rapprochement achieved during the Muslim Brotherhood government was unrealistic.

Meanwhile, the growing interest of the United States in energy exploration in the Eastern Mediterranean was not only due to the prospect of limiting Russia's dominant position in the European natural-gas market. It was also linked to the dramatic developments in the Syrian civil war and the Egyptian military coup. The Cyprus conflict and Turkey's problematic relations with Israel limited the effectiveness of a U.S. policy response to the Arab uprisings. The seemingly intractable Cyprus conflict and the Israeli-Turkish animosity suddenly appeared easier to resolve than the crises that broke out in Syria and Egypt — to say nothing of the rapid deterioration of U.S.-Russian relations over Ukraine. During his May 2014 visit to Cyprus, the highest-level visit of a U.S. official to Cyprus since Lyndon Johnson's in 1962, Vice President Joseph Biden stated that "Cyprus is poised to become a key player, ... transforming the eastern Mediterranean into a new global hub for natural gas," and pledged U.S. support for peace negotiations.³⁸ Unlocking the potential that the resolution of the Cyprus conflict and an Israeli-Turkish rapprochement would bring about in the Eastern Mediterranean rose higher on the U.S. foreign-policy agenda.

CONCLUSIONS

While some of the initial estimates about the significance of discovering sizable energy resources under the seabed of the Eastern Mediterranean may prove to be grossly exaggerated, energy will continue to have a significant effect on the political economy of the region. It is still early to estimate the total size of the recoverable energy reserves. This crucial detail will be affected by the course of the world economy, the development of unconventional fossil fuels (e.g., shale gas) resource technology, and the proliferation of renewable energy. Overcoming the obstacles of the Cyprus conflict, the delineation of the EEZs in the Eastern Mediterranean, the bitter Israeli-Turkish feud and the repercussions of the Arab uprisings requires the cooperative intervention of third parties. Whether a relative-gains or an absolute-gains approach prevails depends on success in multilateralizing the project of monetizing Levantine natural gas — on both the demand and the supply sides. Building trust in a region affected by chronic conflict among neighboring states is notoriously difficult. While there are very few organizations with a positive record in trust-building, one of them, the European Union, has long been involved in the question. Including all key parties — Cyprus, Greece, Israel and Turkey — and making the possible future inclusion of other littoral states — Lebanon, the Palestinian Authority and Syria — would facilitate a positive-sum game. Perhaps natural gas could power peace in the Eastern Mediterranean.

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