

EAST MED ENERGY: RESTORING SQUANDERED OPPORTUNITIES

At beginning of this decade, natural gas prospects in the Eastern Mediterranean generated geopolitical optimism about potential new patterns of regional cooperation that might catalyze a Cyprus settlement, improve Arab-Israeli relations, and provide new gas supplies for Turkey and the EU. Natural gas projects do indeed appear to be reinforcing new strategic triangles among Israel, Cyprus, and Egypt as well as Israel, Cyprus, and Greece. Turkey, however, risks being left out of the strategic mix. By using energy as a uniting factor, the European Union has a chance to play a catalyzing role in resolving the Cyprus Question and improving Turkey-EU relations, similar to the role of the US in the Southern Corridor.

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Geopolitical thinkers love to draw strategic lines on maps. They often dream of big infrastructure projects, such as energy pipelines, as catalysts of new patterns of geopolitical cooperation. In reality, however, multi-country energy projects can come to fruition only if the relevant countries have first identified a common set of geopolitical goals. Once in place, such projects can indeed build on these shared interests and develop new vectors of strategic collaboration.

This is precisely what happened in the strategically important sliver of territory between Russia and Iran during the late 1990s. At that time, Azerbaijan, Georgia, and Turkey resolved to work together to ensure that large new discoveries of hydrocarbons in Azerbaijan could reach global markets free from Russia's pipeline monopoly and geographic chokepoints (e.g., the Straits of Hormuz and the Turkish Straits). Their quest was an "East-West Energy Corridor," a network of five pipelines stretching from the Caspian Sea to the Mediterranean, whose backbone was the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caucasus natural gas pipeline (SCP). A powerful external actor, the United States, provided essential political support, as well as a strategic counterweight to Russia, which strongly opposed BTC and SCP. The EU subsequently joined the project's second round: the expansion and extension of the natural gas pipeline from Azerbaijan to Greece, Albania, and under the Adriatic Sea to Italy in what became known as the Southern Corridor.

Thanks to these efforts, Turkey, Georgia, and Azerbaijan developed new patterns of economic and security cooperation not only with each other, but also with the US and the EU. Armenia, however, was left out of this strategic triangle at the behest of Azerbaijan and Turkey, which sought to isolate their neighbor as punishment for occupying the Azerbaijani territory of Nagorno-Karabakh and its seven surrounding Azerbaijani regions.

A similar set of relationships is emerging today further south in the Eastern Mediterranean, where Israel, Cyprus, and Egypt are forming strategic triangles of their own which exclude Turkey. One of the principal reasons behind the political alignment between these three countries to explore natural gas pipeline projects is political tensions with Ankara.

Israel-Turkey relations collapsed in the summer of 2010 when Israeli commandos launched a deadly raid on a Turkish ship trying to deliver humanitarian aid to Gaza. Though Turkey and Israel finally restored diplomatic relations at the end of 2016, relations soured again in late 2017, when President Donald Trump announced the US Embassy move from Tel Aviv to Jerusalem, which resulted in Turkish President

Recep Tayyip Erdoğan lashing out against Israel. Cyprus and Turkey, meanwhile, have no diplomatic relations, as Ankara does not recognize the existence of the Greek Cypriot-led Republic of Cyprus. Lastly, Egypt-Turkey relations have been tense since then General Abdel Fattah al-Sisi overthrew the Muslim Brotherhood-led government of Mohammed Morsi in the summer of 2013.

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An Emerging Strategic Energy Triangle: Israel-Cyprus-Egypt

These collective tensions with Turkey have prompted unprecedented strategic cooperation among Israel, Cyprus, and Egypt. The initial impetus for their cooperation on energy security arose in 2010 when the world’s largest natural gas find in over a decade was discovered at Israel’s offshore Leviathan field. This was followed in December 2011 by the discovery of a smaller but still significant field in the Mediterranean Sea south of Cyprus, known as Aphrodite. Then, in 2015, another massive gas field, Zohr, was discovered in Egypt’s exclusive economic zone.

Upon the Leviathan field’s discovery, the choice of export routes for its gas reserves became an immediate concern since export revenues were required to finance Leviathan’s development. From the outset, the Israeli government sought to use Leviathan’s exports to improve its relations with its Middle Eastern neighbors. The first phase of Leviathan’s production will, therefore, be exported to Jordan, Israel’s only friend in the Arab world, with a portion delivered to the West Bank’s Palestinian residents.

The second phase of Leviathan’s exports will likely be via pipeline to Egypt’s underused liquefaction terminals, from where it will be shipped as liquid natural gas (LNG) to global markets. This export scheme will strengthen relations between Egypt and Israel, generating a major strategic benefit for both Israel and its most important ally—the United States. Eventually, gas produced in Egypt will expend the current spare LNG export capacity, after the Zohr field satisfies all of Egypt’s domestic gas demand. At that point, the governments and companies operating in both Israel and Egypt will need to consider new export options.

One alternative export solution for Leviathan’s phase 3 gas could be an LNG terminal in Cyprus. The Greek Cypriot government has long aspired to acquire such a facility,

which President Nicos Anastasiades dubbed “a strategic national priority.” The challenge, however, has been to secure sufficient gas volumes to make an LNG export terminal commercially viable. Indeed, Aphrodite’s proven reserves are only around one-third of Leviathan’s 960 billion cubic meters, which, in 2013 Greek Cypriot Minister of Energy George Lakkotrypis conceded was insufficient to justify an LNG terminal. The Zohr discovery by Italy’s ENI on Egypt’s continental shelf, however, has been a game-changer. The largest gas discovery ever in the Mediterranean Sea, Zohr is resurrecting international oil companies’ interest in exploring the Eastern Mediterranean. In February 2018, ENI and France’s TOTAL announced another significant natural gas find, Calypso, in the Greek Cypriot government’s Block 6, which appears to be an extension of Zohr’s geological formation. ExxonMobil will commence a drilling program in Block 10 in October 2018. These additional Cypriot volumes, perhaps combined with phase 3 of Leviathan, might eventually secure the bankability of a Greek Cypriot LNG export terminal. Consequently, a liquefaction terminal could be the first major step toward Cyprus realizing its dream of becoming the energy hub of the Eastern Mediterranean.

A single liquefaction terminal, however, is insufficient to establish an energy hub. Indeed, a natural gas hub is a place where multiple supplies of gas converge and compete with each other in a liquid trading environment, and from where traded gas is forwarded to multiple buyers. Pipelines connecting Cyprus with Israel and Egypt could boost the island’s prospects for emerging as a hub but Cyprus will likely find itself competing with Egypt as investors may find it more financially attractive to expand existing LNG export terminals rather than starting a greenfield project in Cyprus.

A potential game-changer for Cyprus, however, could be an Israel-Cyprus-Turkey gas pipeline. Such a project would enable both Israel and Cyprus to export gas to Turkey and perhaps onward to the EU via the Southern Corridor. This project makes commercial sense, as it would allow investors in Cyprus and Israel to monetize their gas discoveries through sales into the region’s largest and growing market, Turkey, which is eager to find lower cost supplies than current ones from Russia and Iran, especially with no new large volumes of cheaper Azerbaijani gas available any time soon.

Turning a Cypriot Divorce into a Win/Win

Given the sharp tensions in Ankara’s relations with both Jerusalem and Nicosia, an Israel-Cyprus-Turkey gas pipeline from a political perspective is inconceivable today. While Turkey and Israel could overcome their current diplomatic differences with minor difficulty, the political misalignment between Turkey and Cyprus is

considerably more challenging. Turkey has refused to recognize the legal existence of the Greek Cypriot government since 1974 when Greek Cypriot authorities gained international recognition in the wake of Turkey's military intervention. Ankara justifies its intervention under the Treaty of Guarantee of 1960 wherein it sought to protect Turkish Cypriots from Greek Cypriots' attacks. Turkey further argues that Greek Cypriots unfairly deny Turkish Cypriots the right under the Republic of Cyprus' 1960 Constitution to participate in national-level decisions, including on oil and gas exploration in Cypriot waters. Athens and Nicosia, in contrast, argue that Turkey invaded and occupied the northern third of the island in an act of aggression.

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During much of the past five decades, the United Nations has brokered negotiations between the Turkish Cypriot and Greek Cypriot communities aimed at reunifying the island into a bi-zonal, bicomunal federation. The most recent such attempt collapsed in July 2017. Ankara, the Turkish Cypriot community's crucial patron, now seems increasingly in favor of a two-state solution rather than the reunification of the island. They have apparently taken their cue from current Greek Cypriot President Anastasiades, who can no longer support the compromises of then-UN Secretary General Kofi Annan's 2004 Cyprus settlement proposal, despite having been a staunch supporter of the Annan Plan at the time.

In this new political climate in which a Cypriot divorce seems more likely, perhaps Greek Cypriots could drop their longstanding refusal to discuss offshore energy exploration with Turkish Cypriots, given that energy issues no longer provide potential leverage for either side. Such a step could help Greek Cypriots attain their goals of investment in an LNG export terminal and the emergence of Cyprus as the Eastern Mediterranean's energy hub.

Turkey, however, is making it even more difficult for Greek Cypriots to move forward with such plans, which cut across the grain of Cypriot politics. Ankara is now taking a more aggressive stance toward hydrocarbon exploration in Cypriot waters. In February 2018, Turkish warships confronted an ENI vessel planning to drill in Cyprus's Block 3, part of which Turkey claims is part of Northern Cyprus' exclusive economic zone. Following the standoff, the ENI ship ultimately abandoned its mission and departed the area. One month later, Turkish President Erdoğan threatened

that Turkey would defend its rights and those of Turkish Cypriots with regard to hydrocarbon exploration in Cypriot waters. Meanwhile, Turkey's state oil company, Turkish Petroleum (*Türkiye Petrolleri Anonim Ortaklığı*, TPAO), is planning to drill an exploratory well in areas claimed by Turkish Cypriot authorities as part of the continental shelf of the Turkish Republic of Northern Cyprus, an entity recognized only by the Turkish state. It is also unclear whether Ankara will take a similarly confrontational approach to ExxonMobil when the US super-major commences its drilling program in October 2018 in Cyprus's declared Block 9.

These actions by Turkey have prompted sharp counter-reactions in Europe. In response to Ankara's gunboat diplomacy against the ENI drill ship, European Commission President Donald Tusk called on Turkey to "avoid threats or actions against any EU member and instead commit to good neighborly relations, peaceful dispute settlement and respect for territorial sovereignty."¹

Meanwhile, another strategic triangle, this time among Greece, Cyprus, and Israel, seems to be gaining strength as it pursues a highly ambitious pipeline project seemingly aimed at isolating Turkey. The EastMed Pipeline would link gas fields south of Cyprus to Crete and then mainland Greece. Despite serious questions about the project's commercial and financial viability, the European Commission supports the EastMed Pipeline as a Project of Common Interest. The three countries are also exploring a companion subsea electricity cable: the EuroAsia Interconnector.²

The Need for Bold but Realistic Leadership from Brussels and Ankara

If Turkey seeks to prevent its further isolation on matters of energy diplomacy in the Eastern Mediterranean, it will need to find a face-saving way to help reduce tensions. Such an opportunity may now be surfacing, as the EU is looking for ways to strengthen its relations with Turkey, and preserve its important March 2014 agreement to manage the migration crisis, in response to US trade sanctions and the harsh rhetoric of the Trump administration.³ An initial step could be for Brussels and Ankara to avoid a new crisis in Cypriot waters this autumn.⁴ Perhaps a quiet compromise could be reached according to which Ankara acquiesces to drilling by ExxonMobil/Qatar Gas in an area claimed by Greek Cypriots and Nicosia accepts TPAO's drilling in an area claimed by Turkish Cypriots.

¹ "EU Warns Turkey over Cyprus Ship Incident," 13 February 2018, *Euractiv*,

<https://www.euractiv.com/section/politics/news/eu-warns-turkey-over-cyprus-ship-incident/>

² "Israel, Cyprus, and Greece Push East Med Gas Pipeline to Europe," *The Times of Israel*, 8 May 2018,

<https://www.timesofisrael.com/israel-cyprus-and-greece-push-east-med-gas-pipeline-to-europe/>

³ "EU Optimistic on Closer Ties with Ankara After US-Turkey Spat," *Foreign Times*, 19 August 2018,

<https://www.ft.com/content/09935e16-a230-11e8-85da-ceb7a9ce36e4>

⁴ Matthew Bryza, "Cyprus energy – Averting a US-Turkey Crisis," *Euractiv*, 18 May 2018,

<https://www.euractiv.com/section/global-europe/opinion/cyprus-energy-averting-a-us-turkey-crisis/>

The next step could be electricity cooperation.⁵ A working group on electricity sharing already exists between the two Cypriot communities, along with a north-south electricity connection. With strong EU encouragement, Greek Cypriot authorities might eventually be convinced to acquiesce to a subsea cable from Turkey to northern Cyprus, ostensibly to boost Turkish Cypriot electricity supplies. Electricity from Turkey would then become available to Greek Cypriots as well. This scenario would help the EU achieve two key goals with respect to Cyprus: (1) Increase use of renewable energy across the island; and (2) Connect and synchronize Cyprus's electricity network with the EU's electricity grid, (which would occur via Turkey's synchronized connection with Bulgaria). Eventually, a subsea cable to Israel could position Cyprus as an electricity hub connecting the EU and the Middle East, which Greek Cypriot political leaders would likely view as a significant strategic achievement.

“Pipelines connecting Cyprus with Israel and Egypt could boost the island's prospects for emerging as a hub.”

In the longer run, Israel, Turkey, and Cyprus could agree on the most commercially attractive alternative to the EastMed project: an Israel-Cyprus-Turkey gas pipeline. Despite the strategic and economic advantages such a pipeline would provide Cyprus, any Greek Cypriot government would commit political suicide by simply granting permission for such a project. Creating the requisite political alignment would, therefore, require a major strategic benefit for Greek Cypriots, namely, help in securing the Cypriot LNG terminal as a first step toward a natural gas hub on Cyprus.

Building on a previous initiative earlier this decade, the idea would be for the companies leading development of both the Aphrodite and Leviathan fields, Delek Drilling (of Israel) and Noble Energy (of the US), to pledge a portion of early revenues from gas sales in Turkey toward preliminary work on a possible LNG terminal on Cyprus. The financial advantages of such a project, whose length would be only a fraction of that of the EastMed Pipeline, would be self-evident. The EU, meanwhile, could generate the required political partnerships by leading a diplomatic effort to negotiate the inter-governmental and host-government agreements required to provide the project's political and legal frameworks.⁶ This is, indeed, precisely the role the US

⁵ Matthew Bryza, “Energy Cooperation Should Be a Catalyst for Cyprus Peace Talks,” *The Atlantic Council*, 19 January 2018, <http://www.atlanticcouncil.org/blogs/new-atlanticist/energy-cooperation-should-be-a-catalyst-for-cyprus-peace-talks>

⁶ Matthew Bryza, “Eastern Mediterranean Natural Gas: Potential For Historic Breakthroughs Among Israel, Turkey, And Cyprus,” *Turkish Policy Quarterly*, Vol. 12, No. 3 (Fall 2013), <http://turkishpolicy.com/Article/645/eastern-mediterranean-natural-gas-potential-for-historic-breakthroughs-among-israel-turkey-and-cyprus-fall-2013>

played with regard to the Baku-Tbilisi-Ceyhan oil and South Caucasus gas pipelines. If successful, this effort would place Cyprus at the center of a gas transit link from Israel to Turkey and perhaps the EU via the Southern Corridor. This could even be extended to Egypt via a southern spur to transport follow-on volumes of Egyptian gas once Egypt's existing LNG terminals reach full capacity.⁷

None of this will be conceivable, however, without strong EU leadership to create political incentives for Nicosia and Ankara to begin a dialogue on energy issues. This is a tall order in the risk-averse climate of Greek Cypriot politics, where Turkish troops in the island's north cast an imposing political shadow. But, the alternative of letting the current situation drift away may lead to an even darker future for Greek Cypriots, who have no alternative but to share their island with Turkish Cypriots in perpetuity. Though there are many in the EU and in the US who would welcome a chance to cut Turkey loose, a Turkey adrift to pick up the pieces of Syria on its own with Russia and Iran does not portend well for the West's strategic interests in the Middle East. That said, now is also the time for Turkey to make a move to help bring itself in from the cold, which it seems to be trying to do by normalizing relations with Germany and the Netherlands.

⁷ Though such a scheme may sound grandiose, it was suggested to me in 2016 by a former Cypriot foreign minister in my capacity as a non-executive director of Turcas, the Turkish downstream energy company, which was seeking Eastern Mediterranean natural gas for its combined-cycle power plant in Denizli in a joint venture with Germany's RWE.