

Natural Gas in the Eastern Mediterranean: The Coal and Steel of the 21st Century?

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June 2015

Executive summary

Over the past decade, significant natural gas deposits have been found in the Levant Basin of the eastern Mediterranean. A 2010 US Geological Survey estimated that the Levant Basin may contain undiscovered oil resources of 1.7 billion barrels and undiscovered natural gas resources of 122 trillion cubic feet. In the short term, already commercially viable gas fields in the Exclusive Economic Zones of Israel and Cyprus will transform the economies of those states and promote their energy independence. These resources could also bolster Egypt and Jordan, where energy shortages could threaten the regimes. In the medium and long term, the energy resources of the eastern Mediterranean could help reduce Europe's energy dependence on Russia to a degree. Perhaps the most intriguing prospect these resources present is the development of a structure for regional cooperation that promotes peace in this volatile region. Energy cooperation has already become the basis of unprecedented relations between Israel and Cyprus, and also between Greece, Cyprus, and Egypt. There are several indications that it could significantly contribute to the reunification of Cyprus, a lessening of Israeli-Arab tensions, and to better Greco-Turkish and Israeli-Turkish relations. Eastern Mediterranean natural gas can conceivably

play as important a role in the region as coal and steel played in powering European integration. US strategic interests will be advanced by such regional cooperation, and the United States can play a key role in (a) advancing the commercial viability of eastern Mediterranean gas fields, (b) securing the resources, and (c) developing regional structures.

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Introduction

On May 9, 1950, as Europe recovered from the destruction of two world wars, France's foreign minister, Robert Schuman, declared an aim to "make war not only unthinkable, but materially impossible." Thus, the precursor to the European Union—the European Coal and Steel Community—was born. A common market for coal and steel was established among European states. This was not only the first step towards greater regional integration, but a decisive move to ensure that Germany would not wage war on the continent again.

Sixty-four years later, the foreign minister of the Republic of Cyprus, Ioannis Kasoulides, addressed the Chicago Council on Global Affairs. His address included an analysis of how recent discoveries of natural gas deposits in the eastern Mediterranean could have a game-changing effect on the geopolitics of the region. Midway through the address, Minister Kasoulides declared that natural gas in the eastern Mediterranean could be the "steel and coal of the 21st century."

Instability and uncertainty mark the shores of the Mediterranean today. To the south, the events of the Arab Spring have destabilized Egypt and Libya. Israel is in perpetual battle against Hamas. The Islamic State has seized large portions of Syria. NATO member and EU aspirant Turkey continues to occupy the Republic of Cyprus, an EU member. Turkey also continues to feud with Israel and tolerate or enable destabilizing forces in the region such as the al-Nusra front, Hamas, and perhaps even the Islamic State. Economic crises on the northern shores of the Mediterranean at the very least threaten the viability of the euro and could in fact undermine the EU.

Despite all these challenges, the region's emergence as a significant source of energy changes the context within which Mediterranean countries deal with each other and through which outside powers deal with the Mediterranean. The region faces a potential tipping point. Yet it is clear that the mere existence of these resources is not enough to realize Minister Kasoulides' vision of a new steel and coal community. We will address both the threats and opportunities presented by energy in the eastern Mediterranean. Our report makes four main points:

- ▶ The resources at stake are not enough to make a major impact on the world market or even on Europe's energy independence, but they can

have a transformative effect on the economies of the region.

- ▶ The mere prospect of joint development and trade in natural gas has resulted in unprecedented political cooperation between states in the region. This cooperation, occurring at this point only on a bilateral or trilateral basis, can form the foundation for greater regional collaboration.
- ▶ Regional dangers and longtime conflicts threaten to halt progress on the energy front and even make energy resources a sticking point in overcoming such conflicts.
- ▶ A formal, rules-based structure is needed in the eastern Mediterranean that will govern exploration, encourage joint development and exploitation, develop infrastructure that benefits the region as a whole, and become an aspirational goal for regional actors that are not ready to join such a structure today.

One of the top priorities for US foreign policy is to rebalance engagements, activities, and resources toward Asia. This rebalance is possible only if the regions from which the United States is "withdrawing" do not present greater threats after the rebalance. One of the great strategic successes of US foreign policy during the Cold War was denying the Soviets a significant presence in the Mediterranean. Stability in the Mediterranean—in the face of the threats of Islamic fundamentalism, piracy, economic chaos, and Russian assertiveness—is equally important today. Just as the European Coal and Steel Community began a process of regional cooperation and integration that allowed the United States to focus on other strategic priorities, a similar energy alliance in the eastern Mediterranean can free the United States to focus more on other regions.

How much is at stake?

A 2010 US Geological Survey estimated that the Levant Basin, under the Exclusive Economic Zones (EEZs) of Israel, Cyprus, Lebanon, Syria, and Egypt, has mean undiscovered oil resources of 1.7 billion barrels and, more significantly, mean undiscovered natural gas resources of 122 trillion cubic feet (Tcf). The survey also estimates the mean undiscovered resources of natural gas liquids (NGL) at 3.1 billion barrels.² These estimates are still just estimates. Yet since 2010 there have

FIGURE 1



been significant natural gas discoveries in the EEZs of Israel and Cyprus.³ Israel's natural gas reserves include Tamar (confirmed 10 Tcf), Leviathan (estimated 18 to 19 Tcf), and an additional estimated 3 Tcf dispersed over smaller fields. The estimate for Cyprus' Aphrodite field is approximately 5 Tcf. Seismic surveys have led to further licenses being granted across the EEZs of Cyprus and Israel, and exploration in the region will continue.

The additional drilling in Cyprus is particularly critical for the region. In the case of the Leviathan and Aphrodite fields, the countries and companies are planning full development of the fields and methods to deliver the gas to market. An antitrust decision in Israel has temporarily delayed the development of Leviathan,⁴ but now that a new Israeli government has been formed and Israel's antitrust regulator has resigned, the development of Leviathan may soon be back on the fast track.

The implications for world markets are modest at best. Discoveries in Australia and East Africa and natural gas development in the United States and Canada make the eastern Mediterranean seem almost insignificant. Even in the region, by 2030 Libya's exports are expected to reach four times potential Israeli and Cypriot exports combined.⁶ The optimal contribution that Israel and Cyprus could currently offer to the EU,

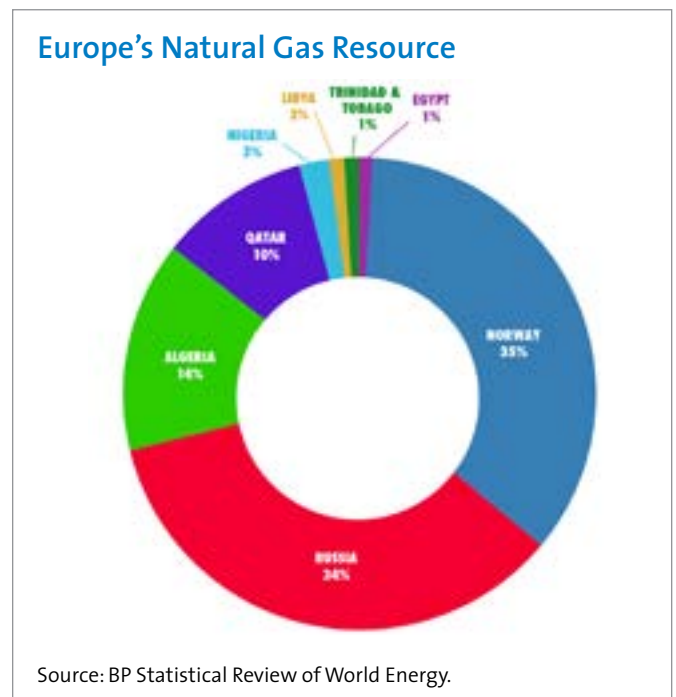
which is desperately seeking to reduce its dependency on Russian gas, is 2 to 4 percent of total consumption.

Notwithstanding these modest expectations, when Israeli and Cypriot gas is considered in a larger context, it can significantly affect Europe. The closest partner to Israel and Cyprus in eastern Mediterranean energy diplomacy is Greece. Already a key player in bringing Caspian gas to Europe through the Trans Adriatic Pipeline,⁸ Greece may hold the key to making Europe more energy independent through using eastern Mediterranean gas.

Preliminary estimates peg Greece's natural gas reserves at over 165 Tcf, more than the combined potential reserves of Israel and Cyprus.⁹ If market forces, technological advances, and geopolitical realities allow for the full realization of these potential reserves, the Greece-Cyprus-Israel triangle could potentially become the third leading supplier of Europe, behind Russia and Norway.

The gas infrastructure going through Greece includes a connector to Bulgaria, which is of particular significance in the effort to wean Europe from Russian gas. Bulgaria depends on Russia for 100 percent of its natural gas supply. Greece depends on Russia for 62 percent of its supply. Serbia, which aspires to EU membership, depends on Russia for 73 percent of its natural gas.¹⁰ In southeast Europe, especially in coun-

FIGURE 2



tries that have had traditionally closer relations with Russia, eastern Mediterranean gas, combined with gas from Azerbaijan, can make Russia merely a supplier instead of the dominant source of energy.

Ultimately, the states immediately bordering the Mediterranean and their closest neighbors stand to reap the economic benefit provided by these resources. The region depends on oil especially to produce electricity. Lebanon depends on oil for 95.1 percent of its electricity supply, Jordan for 72.5 percent, and Cyprus for 96.4 percent.¹¹ As a result, Egypt and Jordan have regular disruptions of electric power, and Cyprus has higher energy costs than any other EU member. Switching to natural gas will ensure consistent power supply and lower energy costs for industry and consumers alike. It will also provide an affordable energy source to power desalination plants, a benefit that should not be discounted in a region desperately short of fresh water.

Israel has long been considered an “energy island.” Energy shortages in the summer of 2012 forced the country to aggressively pursue an energy diversification strategy.¹³ In less than three years, Israel has changed from a country facing energy shortages, relying on coal and dependent on hostile nations for energy, to a country on the verge of energy independence. The Israeli economy and energy sector are already making a transition from coal to natural gas, and Israeli government projections anticipate that by 2030 over 70 percent of Israeli electricity production and about 50 percent of all energy consumption will be powered by natural gas. The Israeli government also has made the decision to export 40 percent of its reserves, which could make the country one of the world’s 25 leading gas exporters.¹⁵ Prime Minister Benjamin Netanyahu has estimated that this level of exports would also bring in \$60 billion in state revenue over 20 years¹⁶ in a state with a current annual budget of \$88 billion.¹⁷

The transformational effect of these new energy resources on Cyprus’ economy can be even more widespread. Cyprus’ own resources will enable the transition from dependence on oil, and with just .25 Tcf, Cyprus’ economy can be natural gas-independent for at least 25 years. Even if Cyprus’ natural gas needs were to quadruple, 80 percent of its gas would be available for export. The prospect of a significant cash infusion will certainly help Cyprus’ economic recovery from the euro crisis.¹⁹

Geopolitical benefits

The Mediterranean is not generally considered a region in the traditional political sense. The forum that exists for Mediterranean states—the Union for the Mediterranean—does not commit members to certain rules. Along the northern edge of the sea are member countries of NATO and the EU, but no formal structure binds the north and south of the Mediterranean or encourages a specific commitment to democratic governance, to human rights, or to international law.

Around the world, the United States sees energy as a catalyst for diplomacy that could provide breakthroughs in frozen conflicts and redefine difficult relationships. The United States sees a particular opportunity in the eastern Mediterranean’s need for a new energy infrastructure. The primary benefit to the region will come from the use and export of these newly discovered natural resources, but they will neither be used nor exported without new infrastructure. Experience to date suggests that joint development is needed, and what had been underutilized national assets, such as Egypt’s Liquefied Natural Gas (LNG) terminals and refineries, need to be transformed into regional assets.

The United States envisions “peace pipelines” and a region brought together not only by wealth from natural gas, but through ancillary businesses associated with the development of the region’s resources. Businesses such as new refineries and increased transportation channels as well as an increase in potential investment into the area in response to diminishing conflicts, may serve as peace dividends. The commitment to such energy diplomacy runs through the entire Obama administration, with the White House declaring its conviction that “energy can and should serve as the tool for cooperation, for stability, for security and prosperity.”²¹

Increased cooperation between eastern Mediterranean states illustrates how regional integration can progress via natural gas the same way it did with coal and steel in 1950s Europe.

The case of Israel and Cyprus

The states of Israel and Cyprus were established post-World War II, both after being under British administration. Despite their proximity and shared historical and cultural experiences, Israel and Cyprus did not enjoy warm political relations in the 50 years after the

Republic of Cyprus was established in 1960. Israel's alliance with Turkey served as the primary obstacle to such relations, but responses by Cyprus—including establishing closer ties with Palestinians—made the chasm between the two wider.

Today, not only is the Israeli-Cypriot relationship the closest it has ever been, but the two states have become among each other's most valued allies.²² In some analyses this relationship has been portrayed as a “bounceback” relationship rising out of the rupture in the Israeli-Turkish relationship in 2011. But the Israeli-Cypriot relationship started improving before then because of energy.

A key point in the relationship came in 2007 and 2008, when the Republic of Cyprus began issuing licenses for exploration in its EEZ. At the end of the process, the rights to explore what became the Aphrodite field, which borders Israel's EEZ, were granted to the consortium of US company Noble Energy and Israeli company Delek Energy, the same consortium that held the rights over Israel's Leviathan and Tamar fields. This growing friendship between Israel and Cyprus became formalized at the end of 2010 when the two countries signed a maritime boundary delineation agreement.²⁴

To say the relationship has advanced rapidly since then would be an understatement. Israeli and Cypriot cooperation on energy, tourism, and health care have all reached unprecedented levels. Total trade between the two countries has nearly doubled since 2009.²⁵ In the past four years they have had first-ever visits of the Israeli prime minister and president to Cyprus and of the Cypriot president to Israel. Their joint antiterrorism efforts and military training have effectively turned the relationship into an alliance.²⁶

In a region full of turmoil, this alliance has been a piece of good news. The countries are slowly but surely becoming more economically and politically reliant on one another. Cyprus brings the EU as close as a 45-minute flight to Tel Aviv and has advocated for Israeli priorities within the union. The designation of Hezbollah as a terrorist organization by the EU—a long-time priority of the United States and Israel—was accomplished after the 2013 conviction of a Hezbollah operative in Cyprus.²⁷ When western military action against Syria was considered in 2013 and the use of Royal Air Force units stationed on British sovereign bases in Cyprus was contemplated, Israel offered early

warning assistance and missile defense in case of retaliation against Cyprus.

Beyond bilateral relations, Israel and Cyprus have laid foundations for regional integration. Much of their cooperation has been expanded to include Greece. Cyprus has offered to mediate between Lebanon and Israel over their maritime border dispute to produce stability in the Levant Basin.²⁹ Finally, together with Greece, Israel and Cyprus are working on physically connecting Europe and the Middle East. The three countries have signed an agreement with the backing of the EU to develop the EuroAsia Interconnector—the world's longest subsea electricity cable—linking the eastern Mediterranean to the pan-European electricity grid.³⁰ Does this have the potential of being the first physical manifestation of a new region?

Integrating Arab regimes

The most disruptive development in the eastern Mediterranean in the past four years has been the Arab Spring. Along the southern edge of the region, Egypt has seen regime change twice, the challenge to Syria's regime has resulted in a civil war that has enabled the rise of the Islamic State, and Hezbollah and Hamas have entrenched themselves further in Lebanon and the Palestinian territories.

One of the greatest economic and day-to-day challenges facing regimes in the Middle East is the availability of energy. Egypt and Jordan are facing their greatest energy crises in decades. Yet these two states stand to immediately benefit from an eastern Mediterranean natural gas boom. Because of demographic pressures and because the export strategy during the reign of Hosni Mubarak has limited Egypt's supply, Egypt has changed from an energy exporting nation to one with rolling blackouts.³¹ Jordan—dealing with an influx of refugees from Syria and Iraq, fighting on the frontlines against the Islamic State, and dealing with the loss of Egypt as an energy supplier—has seen energy become its Achilles heel.³² The survival of both regimes may largely depend on solving their energy quandary.

Once again, early eastern Mediterranean energy diplomacy has provided good news. Despite the continued Arab-Israeli tensions, natural gas from the Tamar and Leviathan fields has emerged as a potential lifeline for Jordan and Egypt.³³ Greece and Cyprus have started involving Egypt in regional planning to develop and exploit natural gas fields, and Egypt's LNG plants

have become the leading contenders to receive gas from Cypriot and Israeli fields for export.³⁴

The history of the eastern Mediterranean is full of zero-sum competitions over territory and water. For perhaps the first time, a “win-win” scenario—economically and politically—has presented itself. No overarching regional framework has yet to be established, but bilateral and trilateral agreements have hinted at tantalizing possibilities. The indications that a political and economic region is being formed are obvious. What is preventing greater integration?

Geopolitical challenges

Despite instances of regional collaboration and promises of more, significant obstacles stand in the way of realizing regional cooperation in the eastern Mediterranean. Although political will has been established in the cases of Israel, Cyprus, Greece, and Egypt, the lack of it is a major obstacle to realizing the full potential of the region. Zero-sum contests still dominate the region. Two particularly pressing problems must be overcome.

Middle East peace, or the lack of it

Noble Energy, previously a mid-market player in the natural gas industry, is positioned to profit handsomely from the eastern Mediterranean because bigger energy players wanted to avoid alienating Arab oil states by working with Israel. Finalizing pipeline plans or keeping pipelines and platforms secure will be complicated as long as Israeli-Palestinian peace is up in the air.

The Gaza Marine natural gas field off the coast of the Gaza Strip illustrates the challenge. In 1999, then Israeli Prime Minister Ehud Barak granted the field to the Palestinians, and Israel has accepted control of the field by Palestinian authorities ever since.³⁵

The Gaza Marine field would diversify Palestinian electricity supply—now entirely dependent on Israel—and perhaps even provide surplus for export to Egypt. The legal status of the field is wrapped up in the push for Palestinian statehood, and despite Israel’s orientation towards Gaza Marine, the developers of Leviathan and Tamar (Noble and Delek) have challenged its legal status in court. Israel is weary of how profits from Gaza Marine would be used, as it does not want to enrich Hamas. Furthermore, for Gaza Marine to have

FIGURE 3



clear legal status—that is, to be within a delineated Palestinian EEZ—there must be a Palestinian state.

Without a wider Arab-Israeli peace, the Gaza Marine situation is unlikely to be resolved, nor can a settlement be reached on the disputed Lebanese/Israeli maritime boundary. More important, the geopolitical status quo makes it more difficult for Israel to establish export markets to Arab countries.³⁸ The Israeli energy industry has become a target for the Palestinian “Boycott, Divest, Sanction” movement, and Arab domestic politics have made energy cooperation—direct or indirect—more difficult. Without a combined Arab-Israeli effort, it is difficult, if not impossible, to contemplate workable eastern Mediterranean political and economic collaboration. Energy resources may be the key that unlocks such cooperation.

Turkey: Making “win-win” impossible?

Turkey is well positioned to advance the future of the eastern Mediterranean as a political and economic union. It has the largest economy in the region; a significant need for imported energy, with pipelines linking Europe to Caspian, Russian, and Iraqi gas and oil; NATO membership; and EU aspirations. It has unfortunately emerged as the most significant obstacle.

The rupture in Turkey’s relationship with Israel presents a daunting challenge. Turkish-Israeli tensions began in Davos in January 2009, when Turkey’s then-

prime minister Recep Tayyip Erdoğan condemned Israeli President Shimon Peres for “killing children” in Gaza. The 2010 Mavi Marmara flotilla incident, in which the attempt to break Israel’s blockade of Gaza resulted in the deaths of Turkish citizens at the hands of the Israeli Defense Forces, and Turkey’s vote against sanctions on Iran at the UN Security Council widened the chasm between the two countries. Despite an apology by Israeli Prime Minister Benjamin Netanyahu to Erdoğan brokered by President Barack Obama in 2013, Turkey and Israel have not been able to reestablish even a working relationship, and it is difficult to envision a scenario under which Netanyahu’s Israel and Erdoğan’s Turkey become allies again.³⁹

Israel’s growing relationship with Cyprus has added to tensions with Turkey. The energy finds in the eastern Mediterranean make it necessary to deal with the division and occupation of Cyprus with the greatest sense of urgency in a decade. Cyprus’ EEZ is recognized by the United Nations, EU, United States, Russia, Israel, Egypt, Greece, and Lebanon. But Turkey does not recognize the UN Convention on the Law of the Sea, nor does it recognize the Republic of Cyprus, despite its obligation to do so under its customs union with the EU.⁴⁰

Turkey has also occupied the northern 37 percent of Cyprus for 40 years. The prospect of a new energy industry in Cyprus—and all the revenue that may come with it—at one point was an impetus to reunify Cyprus. Greek Cypriots have committed to equitably sharing the profits from these resources with Turkish Cypriots upon reunification of the island. During reunification negotiations, Turkey has tried to gain leverage in the energy game for itself and for Turkish Cypriots by making claims on Cyprus’s EEZ and sending seismic vessels and warships into the zone.⁴¹ As a result, the Republic of Cyprus suspended the unification peace process. It also created a flashpoint, with the navies of Turkey and Greece converging on the area and issuing rules of engagement and Israel conducting military exercises with Cyprus.

Spring 2015 brought new hope to Cyprus. Turkish Cypriots elected Mustafa Akinci, who is a more moderate leader than his predecessor, and looks to be as committed to reunification and peace as Republic of Cyprus President Nicos Anastasiades, who has proposed major confidence-building measures like the return of the occupied city of Famagusta to the Greek Cypriots in exchange for direct trade between the rest

of the world and Turkish Cypriots. In the last two years, Anastasiades has also unilaterally implemented other confidence-building measures such as handing over the ownership of mosques to Turkish-Cypriot foundations. The two main communities in Cyprus seem particularly motivated—with the potential bounty from natural gas serving as an unprecedented incentive. The United Nations, which has maintained a peacekeeping force in Cyprus for decades and is the facilitator of the reunification negotiations, also sees a special “opportunity” at this moment.⁴³ A successful negotiation for the reunification of Cyprus will at the very least settle the way Greek Cypriots and Turkish Cypriots share profits from natural gas, removing Turkey’s stated objection to Cyprus proceeding with energy exploitation.

As challenging as overcoming tensions between Turkey and Israel and Cyprus is, it is made even more daunting by how Turkey views regional collaborations in which it is not involved. Turkey reacts to cooperation between Israel and Cyprus, or between Egypt, Greece, and Cyprus, as if it was intended as a provocation against Ankara. As long as Turkey subscribes to such a worldview, it will be difficult to realize the promise that these new resources can produce the preconditions for peace. The experience over the last four years suggests that the political will for cooperation must exist first before actual cooperation over natural gas resources can begin.

The way forward: Laying the foundations for a true community

For the eastern Mediterranean to become a political and economic region, physical and institutional manifestations of cooperation must be developed. Enough has been gleaned from the successes of the past four years to begin developing a framework to govern the region’s newfound resources, the common benefits that arise from them, and the competition over them.

To date, the United States has been the most active in trying to create this region. Whether by kicking off the Israeli-Jordanian deal or ensuring that Noble Energy’s exploration in the eastern Mediterranean can occur unimpeded, US leadership is responsible for many of the successes that have led to this discussion. For that leadership to take the region to the next level, however, the United States must also alter its course to some extent. The United States has issued mixed

signals by encouraging and aiding the bilateral and trilateral agreements to date, while indicating that “all neighbors” will have to be part of a next step.⁴⁵ The United States is inadvertently strengthening the resolve of any party that is inclined to treat energy diplomacy as a zero-sum competition.

Misunderstandings, posturing, and brinksmanship will impede progress until regional cooperation is formalized. That cooperation will depend in part on technological advances, in part on market conditions, and in part on regional relationships. The United States can influence each of these elements positively by following three recommendations: speed things up, get serious about infrastructure, and form an institution.

Speed things up

While years of exploration still need to be completed for the eastern Mediterranean to reach its full potential, Israel’s Tamar and Leviathan fields and Cyprus’ Aphrodite field are ready to go from the exploration stage to the exploitation stage. However, because of changing market and political conditions, the inability to confirm what up to now have been overly ambitious estimates of natural gas reserves, and domestic politics in various countries, timelines on energy exploitation in the region are constantly shifting.

Merely expressing a sense of urgency has proven to be insufficient. US diplomats are constantly admonishing stakeholders in the region that a window of opportunity may be closing, and energy companies invested in the region are eager to begin full development and exploitation of the fields that have already been explored.⁴⁶ But this has not brought gas out of the sea and into the markets.

The United States and the EU must devote more technical and financial assistance to overcome immediate obstacles so that initial phases of exploration can at least move forward. Long term goals—including the goal of eventually integrating Turkey—cannot be abandoned, but should not be treated as short-term priorities. Perhaps the most pressing priority, however, is to help resolve Israel’s regulatory holdup delaying the development of Leviathan. So much of a true regional energy strategy depends on Israel’s natural gas fields—from providing short-term supply to Jordan and Egypt, to export options in combination with Cyprus, to a potential pipeline to Europe⁴⁷—that this delay is having a wide spillover effect in both Europe and the Middle East. Now that a new Israeli government has

been formed, there is hope that this regulatory dispute can be resolved quickly. Yet it must be kept in mind that Israel has only recently become a significant energy-producing state, and the state’s regulatory capacity is still at an early stage of development. Helping regulators find creative solutions and establish precedents that won’t be overturned is something that will not only help short-term energy development, but long-term institution building.

Get serious about infrastructure

Beyond claims on the natural gas itself, one of the reasons for a zero-sum mindset in the eastern Mediterranean is competing aspirations to be the “energy hub.” Discussions over how to get eastern Mediterranean gas to Europe have focused on three potential energy hubs: Cyprus, Greece, and Turkey. Right now, the cheapest way to transport this gas to Europe is through the pipeline network being constructed in Turkey.⁴⁸ Yet its political difficulties with Israel and Cyprus continue to make this an unrealistic option.

In the short term, the focus must be on using natural gas to shore up and transform the economies of Cyprus, Israel, Egypt, and Jordan. Infrastructure to accomplish these goals must be prioritized and incentivized. For economic and political reasons, Cyprus and Israel are seeking the ability to export to Europe, and only have limited resources to invest in pipelines and terminals. The situation remains fluid, as exploration is ongoing in the region, but short- and long-term options must be developed.

The natural solution to bringing eastern Mediterranean gas to market in the next five years is to pipe available gas to Egypt, with its unused Liquefied Natural Gas (LNG) facilities. This would not only help the Egyptian economy meet its own energy needs, but would allow for export to Europe. This option still carries quite a bit of uncertainty, since Egypt has experienced regime change twice in the last four years and the previous Muslim Brotherhood regime showed a willingness to disengage from Israel regarding energy. Yet technical studies for export of Cypriot gas to Egypt are nearing completion and Egypt has liberalized its energy regulations, has ended subsidies for domestic gas companies, made it harder for monopolies to form, and created an opening for private sector involvement.⁵⁰ All of these steps allow for greater integration with a regional structure.

FIGURE 4

The East Mediterranean Pipeline and Possible Connections



Source: Georgia Logothetis, Hellenic American Leadership Council.

An alternate route must be planned and committed to even before this initial phase. Whether it is an LNG terminal on Cyprus, a floating LNG terminal, a compressed natural gas terminal, or the Israel-Cyprus-Greece-Italy pipeline under consideration by the EU as a “Project of Common Interest,” an option that provides for western control of this resource is necessary.⁵¹ A long-term scenario that brings eastern Mediterranean gas to Europe via Turkey should not be discounted, but without a resolution of the Cyprus problem and a thaw in relations between Turkey and Israel, this cannot be realistically planned.

A physical connection between the eastern Mediterranean and Europe would not only ensure continuity and predictability of supply, but would give Europe the incentive to become more deeply engaged in the area and invested in overcoming conflicts and replacing them with a true political region. The EU’s direct involvement as a consumer, as an investor, and as a technical provider will be critical in developing a rules-based system governing eastern Mediterranean energy.

Through the State Department’s Bureau of Energy Diplomacy, the United States should actively and openly participate in planning all routes. As the map above illustrates, routes can be conceived in such a way that every country in the eastern Mediterranean

can take part. A multilateral infrastructure would further the formation of a region and could lead to breakthroughs on regional conflicts, as states not participating would realize that a region is being formed while they are being left behind.

The United States must also lead a security arrangement to protect such infrastructure. Hamas, Hezbollah, and the Islamic State all have presences along the Mediterranean. Russia has a naval presence in Syria and would like nothing more than to prevent these newfound resources being seen as an alternative to Russian gas. A security arrangement would not only protect energy infrastructure from terrorist threats, but would make energy companies feel more secure in their investments. At a time of falling energy prices, any disincentive to further exploration and development in the eastern Mediterranean must be countered.

Form an institution

Since the major stakeholders with confirmed natural gas fields in the region are already cooperating, it is time to start constructing a rules-based system for further cooperation, for dealing with crises, and for settling claims.

This system must reaffirm a strict commitment to the UN Convention on the Law of the Sea and must grant some level of enforcement to delineation agree-

ments consistent with the Law of the Sea. It must also establish a dispute settlement mechanism based on the Law of the Sea and delineation agreements. Member states in this institution should commit to mandatory arbitration with appeal to the International Court of Justice.

The institution should be open to any state bordering the eastern Mediterranean, provided that it accepts the legal standards and consents to the dispute resolution mechanism. It should be made clear by the United States, the United Nations, and the EU that the claims and grievances of states acting outside of this institution will not be treated favorably.

Since the time for developing the confirmed natural gas fields is fast approaching, the development of this institution should begin immediately. It could start with the announcement of a series of multilateral conferences in different locations, with a limited agenda of promoting confidence-building measures such as joint action for environmental emergencies and adopting common safety standards. The limited agenda will reassure all participants that no one state is being singled out or targeted for collective pressure. Further reassurance can be given by hosting these conferences in noncontroversial locations. Because of the tension between Turkey, Cyprus, Israel, and Egypt, none of those states should serve as host at this point. Greece—in open partnership not only with Cyprus, Israel, and Egypt, but with Turkey as well (through the Trans Adriatic Pipeline)—is a natural host.

A key facilitator in this institution building could be Italy. As an EU member with good relations with Turkey and a history of investment in Arab states, Italy has emerged as a main cog in developing energy infrastructure in the region. Italy will be the terminus where the Trans Adriatic Pipeline links with pipelines into western Europe. It is also part of the potential pipeline with Israel, Cyprus, and Greece, which would bring eastern Mediterranean gas to Europe.

Italy is not merely a passive participant in the eastern Mediterranean. Italian companies like Eni and Edison are investing heavily in Cyprus, Israel, and Egypt. These Italian interests are not part of short-term development in the region, but there is clearly an Italian “arc of interest” in the EEZs of Cyprus, Israel, and Egypt that will play a key role in determining the long-term energy strategy in the region. It is more than fortuitous that Italy was one of the original states in the European project, since both the Italian state and

its business sector have demonstrated experience and political will in regional integration efforts. The second conference could be hosted by Italy.

Don't stop at gas

Exciting possibilities arise with the eastern Mediterranean as an energy region: regional stability, a true link between Europe and the Middle East, economic growth, and prosperity around the region. Perhaps the most exciting possibility is that of the energy independence of Europe. As discussed above, the quantities at stake are not sufficient to make Europe independent of Russian gas. Consequently, a more ambitious future should be planned for the EuroAsia Interconnector.

Eastern Mediterranean natural gas may potentially carry electricity along the interconnector to Europe. The capabilities of the interconnector and of the facilities that feed it power should be far more expansive. Israel, Cyprus, and Greece all have a great deal of solar capability. In fact, Cyprus and Greece use solar power to heat water. Greece has tremendous potential in wind energy. Israel has proven to be on the leading edge of energy-saving technology with its electric car industry. The United States should work with these three countries to create a mechanism to invest a portion of the profits from natural gas into renewable sources of energy that can send additional power back to Europe through the interconnector.

The project that began with the European Coal and Steel Community has helped Europe avoid the horrors of war over the past 70 years and—the present euro crisis notwithstanding—has led to an unprecedented level of prosperity across the continent. It is clear that newfound resources in the eastern Mediterranean and the cooperation that they have produced so far can have a similar effect. The proposed timelines for starting the development of natural gas fields are upon us. The energy needs of the countries involved and of the EU and Jordan are immediate. The conflicts that can be overcome, such as the division of Cyprus and the Israeli-Palestinian conflict, are in ongoing negotiations. Proper foundations for future policies—such as energy independence of Europe from Russia and a US rebalance from Middle East and Europe to Asia—must be laid now. The United States has already played a leading role in this effort. With a bit more foresight and aggressiveness, the beginnings of a true region in the eastern Mediterranean may become the legacy of the last two years of the Obama administration.

The Emerging Leaders Program

The Chicago Council on Global Affairs' Emerging Leaders Program is a two-year program that draws the best and the brightest emerging leaders from across business, civic, government, and academic sectors in the Chicagoland area. The program provides the Emerging Leaders (ELs) with a deeper understanding of global issues and Chicago's place in a globalized world. ELs also develop a strong network of contacts with current civic and business leaders and, perhaps more importantly, with their Chicagoland peers, who are also grappling with global challenges. In short, they emerge better prepared to assume key leadership positions in this new era.

Acknowledgments

The members of this team all contributed over the course of two years to the discussion and debate in the development of this topic and report. Throughout the second year they were briefed by experts in Washington, DC, and Chicago, who provided invaluable insights for their research. The Chicago Council would like to express our gratitude to the following individuals for taking time out of their busy schedules to brief this group and share their experiences and views: H.E. Nicos Anastasiades, president, Republic of Cyprus; US Congressman Gus Bilirakis and the staff of the Congressional Hellenic-Israel Alliance caucus; H.E. George Chacalli, ambassador of the Republic of Cyprus to the United States; US Congressman Ted Deutch; Ioanna Efthymiadou, consul general of Greece in Chicago; David Harris, executive director, American Jewish Committee and his staff in Washington, DC, Chicago, and New York; Amos Hochstein, special envoy for International energy affairs, US Department of State; H.E. Ioannis Kasoulides, minister of foreign affairs, the Republic of Cyprus; H.E. John Koenig, ambassador of the United States to the Republic of Cyprus; H.E. Yiorgos Lakkotrypīs, minister of energy, commerce, industry, and tourism of the Republic of Cyprus; Sir Michael Leigh, senior advisor, German Marshall Fund; Rauf Mammadov, director of SOCAR (State Oil Company of Azerbaijan) USA.

Council staff Molly O'Donnell worked with the group throughout the two-year process. Ellen Hunt

of Hunt Communications edited drafts of the report. None of this great work would have been possible without the vision, leadership, and support of John F. Manley and Shirley Welsh Ryan, both vice chairs of The Chicago Council's Board of Directors. They, along with the other members of the Emerging Leaders Selection Committee, invested significant time in selecting the members of this class.

Their efforts have resulted in another great group that The Chicago Council is proud to have as Emerging Leaders. Our sincere appreciation goes to the Robert R. McCormick Foundation and the Patrick G. and Shirley W. Ryan Foundation for their support of the Emerging Leaders Class of 2015.

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