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Potential Unfulfilled? What lies ahead for Cypriot-Israeli Cooperation in 2013

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The sudden burgeoning of Greek-Israeli cooperation that followed the *Mavi Marmara* incident (June 2010) and the delimitation of the Cypriot-Israeli Exclusive Economic Zone (December 2010), created the impression that a small diplomatic revolution was at hand. The most extreme proponents of this rapprochement went so far so as to suggest that the traditional Arab alliances of Greece and Cyprus were irrelevant. A strong strategic alliance between the two states will be formulated in order to help Cyprus to develop its hydrocarbon resources at the face of Turkish opposition while offering Israeli gas exports a secure transit to central and southeast Europe via Greece.

Although Greece and Israel protested against Turkey's threats against Noble's exploratory drilling (September-November 2011) that led to the discovery of the Aphrodite field in December 2011, the strategic alliance was never "consummated". Diplomatic exchanges increased, joint military exercises multiplied, and the flow of Israeli tourists to Greece grew almost exponentially, but the energy part of the "alliance" remained theoretical.

Israel's inability to decide on a long-term gas export strategy combined with the fall of the Papandreou government (November 2011) and Turkey's inability to dissuade major European oil companies, such as Total and ENI, from investing in the further exploration of the Cypriot EEZ (May-October 2012), contributed to the partial recalibration of geostrategic priorities in all sides of the triangular relationship.

This recalibration added a greater level of diplomatic flexibility to the developing relationship. Despite U.S. and U.K. objections, Greece and Cyprus were able to support Palestine in the UN framework during the crucial votes of 2011 and 2012 while simultaneously promoting at the EU level the construction of electricity and gas links interconnecting the two Eurozone states with Israel. This increased flexibility also limited the potential impact of political destabilization that emerged from the reactions of Lebanon and Turkey to the delimitation of the Cypriot-Israeli EEZ.

Turkey is highly unlikely to start a war with both Greece and Cyprus over the latter's hydrocarbon reserves while Lebanese claims on Israel's EEZ cannot impede the development of either Tamar or Leviathan. Although Israel has not yet decided the details of its export strategy it is becoming increasingly clear that major exports would be eventually permitted first in the form of Floating LNG from Tamar and subsequently in the form of LNG exports from Leviathan. Israeli authorities have not yet decided whether they would send part of Leviathan's gas to Cyprus' planned LNG liquefaction terminal in Vassilikos or whether they will construct an LNG terminal along (most probably) Israel's Mediterranean coastline.

What neither Cyprus nor Israel are willing to seriously consider before the end of the decade is the construction of a gas pipeline to Greece even though both states are fully supportive of a High Voltage Electricity Cable (HVDC), the so-called Eurasia Interconnector. Both countries appear to be prioritizing the development of their LNG exports and delay any plans for a pipeline connection until *after* the full potential of exploitable gas reserves is accurately estimated in their respective EEZ.

Neither Israel nor Cyprus would be able to have an accurate estimate of that potential before 2015. At this stage the participation of Israeli gas in the development of the Vassilikos LNG is important in order to secure the bankability of the project. Nicosia and the Noble/Delek consortium have agreed to construct by 2018/2019 the first of three 5 million metric tons per year liquefaction trains which is estimated to cost around \$10 billion.

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If no Israeli gas is liquefied via Vassilikos as Noble and Delek desire, then the Cypriot project would become marginally viable from a financial point of view, unless the appraisal drilling over Aphrodite verifies (in April-May 2013) the existence of a reserve-basis considerably larger than 5-8 tcf. If Aphrodite proves to be a 9-10 tcf field then Cyprus will be far less dependent on Israeli gas in order to finance the Vassilikos LNG project. If the existing projections for an *in situ* reserves basis of 60 tcf for Cyprus' EEZ are (even 50%) verified by 2015, then Cyprus would be able to implement a multifaceted export strategy that would combine several LNG terminals and a pipeline connection to Greece after the early 2020s.

Within this context the preliminary results of the Pelagic license holders that drilled on the Ishai area, namely the extension of Aphrodite in Israel's EEZ, may prove to be quite disconcerting. The Pelagic License consortium which is controlled by Israeli tycoons Teddy Sagi and Benny Steinmetz, started drilling on 2 November 2012. 3-D seismic surveys have suggested the existence of around 3.7 tcf (103.6 bcm) of natural gas with a probability of geological success close to 77%. The final results of the exploratory drilling are expected by the end of February 2013. Initial data on Ishai's drilling released on 2 January 2013 indicate that the thickness of the discovered gas column is lower than expected and does not justify expectations for a reserve basis of 3.7 tcf.

An announcement by Pelagic to the Tel Aviv Stock Exchange (TASE) that same day referred to a net play interval of 15 meters compared to a 100 m net play interval in the case of the Aphrodite field. In another ominous development, most of the employees of Genesis, the major shareholder of the license, were fired following the initial estimate of the drilling's result. In any case the size of these reserves and the extent of their exploitability will act as a catalyst for several important developments that will in turn shape the future of Cypriot-Israeli energy cooperation. *On the one hand if the Ishai reserves are significant then there would be little need to export Leviathan's reserves via Cyprus.*

The potential importance of Ishai is so significant for Israel and the Noble/Delek consortium that even the exclusion of all Israeli companies from the four Blocks awarded on 31 October 2012 by Nicosia, is not likely to forestall the signing of a Common Unitization Agreement (CUA) *if* significant gas deposits are discovered in Ishai. *From a geopolitical point of view the signing of a CUA between Cyprus and Israel will make sure that a potential rapprochement between Turkey and Israel will not be detrimental to Cyprus' diplomatic or energy interests.* On the other hand if no commercially extractable gas reserves are found in Ishai, then the partial gasification of Leviathan gas in Vassilikos may prove to be a key factor in the bankability of Cyprus' first LNG project.

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