



"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

SECURITY & FOREIGN POLICY PROGRAMME

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Summary

- Security of critical economic and energy infrastructure has become a key element in the agenda of both the EU and NATO.
- The global balance between energy producers and energy importers needs to be respected in order to secure the smooth operation of global economy and trade. Global energy organizations like OPEC and GAS OPEC see to that.
- Constructive, multilateral energy diplomacy via the reinforcement of the EMGF (East Med Gas Forum) is considered as the optimum solution to any destabilizing factor in the region.
- The Eastern Mediterranean has the potential to become a gas supply source for the EU in the future, alternatively to Russia, which is why it has been identified by Brussels as a future gas diversification source.
- The official strategy of Cairo is to develop indigenous natural gas resources, with the double aim to increase gas production rates and to export significant amounts to Europe in the immediate future.
- Egypt is bound to lead gas exports of the Eastern Mediterranean countries and diversification for Europe, through its LNG terminals. The East Med pipeline could follow later on.

Introduction

"Security of critical economic and energy infrastructure has become a key element in the agenda of both the EU and NATO in recent years."

"Constructive, multilateral energy diplomacy via the reinforcement of the EMGF (East Med Gas Forum) is considered as the optimum solution to any destabilizing factor in the region."

With the definitions of security undergoing a fundamental change, energy security is seen as an integral part of the foreign and national security policy of each state. From this perspective, it is worth noting that security of critical economic and energy infrastructure has become a key element in the agenda of both the EU and NATO in recent years. In this policy paper, key question is: how do major energy projects affect regional ethnic conflicts and the overall stability of the Eastern Mediterranean region? What is the impact of prospective energy megaprojects like the East Med pipeline, the new discoveries in the Eastern Mediterranean Sea, as well as the search gas supply routes to the European markets on the evolution of the Eastern Mediterranean ethnic conflicts and disputes, whether they have incentivised peace and cooperation among the states in conflict or solely compounded their strained relations by further complicating their settlement. Contrary to other studies, the thesis of this paper is that energy trade has either a minimal impact or no impact at all on deep-rooted ethnic conflicts and political disputes. The Cyprus issue and the ongoing tension between the Palestinian Authority and Israel are two cases in this point. Conflict resolution is a complex process requiring a certain political and social context and the establishment of some sense of mutual trust between peoples and nations. Real practice has shown that the successful exploitation and monetization of energy resources can hardly incentivise or disincentivise this process. The Eastern Mediterranean region is home to several ethnic conflicts and disputes: the two oldest registered with the United Nations (the Cyprus and the Arab-Israeli conflicts), the Syrian War, occasional instability in Egypt and civil war in Libya. At the same time, it has the potential to become a gas supply source for the EU in the future, which is why it has been identified by Brussels as a future gas diversification source. Along with field development, the key issue is the gas export routes towards Europe, with two main options on the table: either by pipeline, through the East Med project, or with LNG carriers through the Egyptian terminals. Both options are analysed and the argument goes in favour of sending LNG to Europe first through Egypt, this being the more imminent and market favoured solution, and at a second stage, through the East Med pipeline, when field development will have progressed and more discoveries will be available. Constructive, multilateral energy diplomacy via the reinforcement of the EMGF (East Med Gas Forum) is considered as the optimum solution to any destabilizing factor in the region.

Energy security versus conflict resolution

"Energy, business, and politics are interlinked, as political strategies intersect with the business strategies of major energy companies, as reflected in the hydrocarbons' development contracts."

In the energy business there is a popular saying: "Pipelines are 90% politics and 10% steel". Though this phrase clearly gives more weight to politics and undermines the business dimension, fact is that energy is political by its very nature. Ironically, the largest energy reserves are usually far away from the developed energy markets that need them most, and are sometimes located in parts of the world lacking economic and political stability. Thus, any effort to bring the hydrocarbons to the end- consumers goes beyond the typical investment risk and is associated with country/region risk assessment analysis. In that sense, energy security is associated not only with countering a wide variety of threats, like extreme weather conditions for instance, but also with bilateral interstate political and economic relations, as well as with national security issues. Energy, business, and politics are interlinked, as political strategies intersect with the business strategies of major energy companies, as reflected in the hydrocarbons' development contracts. The exploitation of energy resources also appears to be a significant element in the power struggle between competing states, as energy trade crosses national borders and its importance is not limited to state economy and development but is also related to national security. The global balance between energy producers and energy importers needs also to be respected in order to secure the smooth operation of global economy and trade. Global energy organizations like OPEC and GAS OPEC see to that.

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

"The global balance between energy producers and energy importers needs also to be respected in order to secure the smooth operation of global economy and trade."

"The IEA's definition of energy security as the uninterrupted availability of energy sources at an affordable price reflects in an optimum way all issues and parties concerned."

"The Eastern Mediterranean has the potential to become a gas supply source for the EU in the future, alternatively to Russia..."

With the definitions of security undergoing a fundamental change, energy security is treated as an integral part of the foreign and national security policy of each state, in essence as a mechanism that measures the degree of securitization in bilateral political and military relationships. From this perspective, it is worth noting that security of critical economic and energy infrastructure has become a key element in the agenda of both the EU and NATO in recent years, clearly manifested in official texts and declarations. For this reason, the geopolitics of energy, hydrocarbons in particular, have been inserted in the foreign policy and national security agenda of all states involved, as well as in the EU and international security agenda.

Definitions of energy security range from physical supply disruption due to weather conditions to economic, environmental and political consequences in the global energy market. As noted above, preserving the global balance between producers and importers is a key element of the global energy market. As a result, in countries highly dependent on hydrocarbons' imports, the main energy security concern lies with supply and therefore with the protection of critical energy infrastructure (pipelines, LNG terminals, compression stations, tanks, refineries and storage facilities). On the contrary, countries with economies based on producing and exporting oil and gas, are more concerned with security of demand. Energy security is not just about countering a wide variety of threats; it is also about the relations among nations, how they interact with each other, and how energy impacts their overall national security¹. The IEA's definition of energy security as the uninterrupted availability of energy sources at an affordable price reflects in an optimum way all issues and parties concerned².

In this policy paper, a specific issue is addressed through the analysis of a case study: how do major energy projects affect regional ethnic conflicts and the overall stability of a region, in this case the Eastern Mediterranean? What is the impact of energy projects like the East Med pipeline, the new discoveries in the Eastern Mediterranean Sea, as well as the new supply routes to the European markets on the evolution of the Eastern Mediterranean ethnic conflicts and disputes, whether they have incentivised peace and cooperation among the states in conflict or they have strained bilateral relations by further complicating conflict resolution. The region is endowed with significant deposits of oil and natural gas, some of which have been recently discovered, with scheduled gas and LNG routes to Europe and actors, exporters, pipeline operators, transit states and downstream customers that are connected in a web of political and economic interdependencies, complicated by multiple ethnicities and nationalities. The region has been included in the global energy map in the beginning of the previous decade, when the United States Geological Survey (USGS, 2010) study on the Eastern Mediterranean hydrocarbons was released in the US. The Eastern Mediterranean has the potential to become a gas supply source for the EU in the future, alternatively to Russia, which is why it has been identified by Brussels as a future gas diversification source. Along with field development, the key issue is the gas export routes towards Europe, with two main options on the table: either by pipeline, through the East Med project, or with LNG carriers through the Egyptian terminals Idku and Damietta. In this paper, both options are analysed and the argument goes in favour of sending LNG to Europe first through Egypt, this being the more imminent and market favoured solution, and at a second stage, through the East Med pipeline, when field development will have progressed and more discoveries will be available. Constructive, multilateral energy diplomacy via the reinforcement of the EMGF (East Med Gas Forum) is considered as the optimum solution to any destabilizing factor in the region.

¹ See Daniel Yergin, *The Quest. Energy security and the remaking of the Modern World* (New York, The Penguin Press, 2011), 507.

² See International Energy Agency Homepage: <http://www.iea.org/topics/energysecurity/>

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

Moreover, the region is home to deep-seated ethnic conflicts and disputes: the two oldest registered with the United Nations- the Cyprus and the Arab-Israeli conflicts, the Syrian War, occasional instability in Egypt, Hezbollah activity in Lebanon, civil war in Libya, as well as increasing Turkish provocations in Cyprus EEZ and Eastern Mediterranean waters. In terms of political geography, this region constitutes probably the most representative example that can demonstrate the validity of the argument of this paper. Contrary to other well-substantiated studies, the thesis of this policy paper is that energy development has either a minimal impact or no impact at all on deep-rooted ethnic conflicts and political disputes. The Cyprus issue and the ongoing tension between the Palestinian Authority and Israel are two cases in this point. The completion, of course, of some energy related projects, like the construction of pipelines, does not conform to the basic economic or commercial aspects required. The widespread assumption that decisions on natural gas export projects are affected by political considerations is certainly true. However, it has its limits. The gravity of the political factors behind oil and natural gas investment decisions is related to several other conditions, such as energy market dynamics, commercial interests of energy companies, the nature of the natural gas supply and economy of pipelines that ultimately shape the value of such projects and determine the decision-making process. Conflict resolution is a complex process requiring a certain political and social context and the establishment of some sense of mutual trust between peoples and nations. Real practice has shown that the successful exploitation and monetization of energy resources can hardly promote or delay this process.

"In 2010, the USGS published a survey stating that the Levant Basin could hold as much as 120 tcf (trillion cubic feet) or 3.4 bcm (billion cubic meters) of recoverable gas and 1.7 billion barrels of recoverable oil."

Geopolitical considerations may influence economic and business decisions on big infrastructure energy projects, such as pipelines or LNG terminals, because such projects involve significant long- term financial investments followed by risk assessment analysis. Investors, in general, have to wait a long time before receiving a return on their investments, the so- called profit period, and such investments involve immense expenditure costs, the so- called cost oil period, as reflected mostly in the Production Sharing Agreements (PSAs)³. Political and economic stability are, therefore, of essence when decisions are made on where and when to invest in hydrocarbons' development and infrastructure building⁴. For instance, in the Caspian Sea, the energy companies investing in field exploitation and development are also the same companies that undertake in the form of consortia, the export and transit of the hydrocarbons from the Caspian to the West, a pattern that could be followed in the Eastern Mediterranean as well.

The significance of the Eastern Mediterranean reserves

The geopolitical and economic significance of the Eastern Mediterranean region has significantly increased in the last decade due to the new gas discoveries in the Exclusive Economic Zones (EEZs) of Egypt, Cyprus and Israel. In 2010, the USGS published a survey stating that the Levant Basin could hold as much as 120 tcf (trillion cubic feet) or 3.4 bcm (billion cubic meters) of recoverable gas and 1.7 billion barrels of recoverable oil⁵. The USGS also estimated that the Mediterranean might contain more than 340 tcf existing or assumed oil and gas reserves altogether. So far, major discoveries⁶ in the Levant Basin include the Tamar and Leviathan fields, offshore Israel (discoveries in 2009 and 2010 respectively), the Karish and Tanin fields, also offshore Israel (discoveries in 2011 and 2013 respectively), the Aphrodite field

³ See Marika Karagianni. "Hydrocarbons. The contracts of offshore field development", Nomiki Vivliothiki, Athens, 2018.

⁴ See Frank Verrastro and Sarah Ladislav. "Providing energy security in an interdependent world", The Washington Quarterly 30 (2007): 95–104.

⁵ See United States Geological Survey-USGS (2010). World Petroleum Research Project, Assessment of undiscovered oil and gas resources of the Levant Basin Province, Eastern Mediterranean. Washington.

⁶ A discovery is made when a reserve is found, following a first drilling on a specific spot. The term "reserves" defines hydrocarbons that are certified but it is not yet clear whether and how much of them can be extracted and produced on commercial terms. The term "deposits" defines the asserted quantities of hydrocarbons, which can be extracted and can be subject of commercial production. As a result, the term "reserves" includes the term "deposits" (Stergiou- Karagianni, 2019; Narimanov- Palaz, 1995).

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

offshore Cyprus (discovery in 2011) and the Calypso and Glaucus 1 fields (discoveries in 2018 and 2019 respectively). The major discovery, however, in the Eastern Mediterranean was realized in 2015, when the Italian energy company Eni announced the finding of a huge offshore block in the Shorouk concession, named Zohr, holding 850 bcm or 30 tcf in place⁷. First gas from Zohr came online in December 2017, whereas according to the Eni statement, gas production from the field reached more than 2.7 billion cubic feet per day (bcf/d), in August 2019, roughly five months ahead of the development plan⁸. Egypt has also other smaller, albeit significant, gas fields: Balteem, 9B, Raven, East Obayed and South Disouq, all of them accounting for 15 bcm/y production⁹. Furthermore, in late June 2018, Eni announced the future development of the offshore Noor gas field from August onwards, with probable reserves of around 90 tcf, which is three times the size of Zohr. With this new discovery, it becomes evident that Egypt holds massive gas reserves, as well as the key for the future gas export options towards Europe, as Cairo will be able to develop its own viable and commercially attractive LNG export strategy, using the two large existing LNG terminals in the Mediterranean, Idku and Damietta¹⁰.

"Egypt holds massive gas reserves, as well as the key for the future gas export options towards Europe."



Source: Middle East Economic Survey.

Back in late 2000s, the prospect of discovering new gas reserves progressively “pushed” the political leaderships of the said countries to define their EEZs (Exclusive Economic Zones), in order to invite the global energy companies to invest in the prospective blocks. As a result, Israel signed an EEZ delimitation agreement with Cyprus, in 2010, without having declared such a zone prior to the conclusion of the agreement and having only partially acceded to the 1982 United Nations Law of the Sea Convention (UNCLOS). In 2003, the Republic of Cyprus delineated its EEZ with Egypt and in 2007 with Lebanon. The Lebanese Parliament has not so far ratified this agreement. Instead, the Council of Ministers adopted on May 21, 2009 a new delineation, which is different from the 2007 agreement, and in July 2010 the Lebanese government sent a new list of geographical coordinates to the UN, contradicting the 2007 agreement. In 2020, Greece signed an agreement of partial EEZ delimitation with Egypt,

⁷ See Charles Ellinas (2019) *East Med Gas: The Impact of Global Gas Markets and Prices*. Istituto Affari Internazionali. Available at

<https://www.iai.it/en/pubblicazioni/east-med-gas-impact-global-gas-markets-and-prices>

⁸ See ENI webpage, <https://www.eni.com/en-IT/operations/egypt-zohr.html>, accessed September 29, 2020.

⁹ See Charles Ellinas, “Presentation on the East Med hydrocarbons’ potential”, IENE 3rd Workshop on Eastern Mediterranean Hydrocarbons’ Development, Athens, October 30-31, 2018.

¹⁰ See Oilprice.com, “How important are Egypt’s gas discoveries?”, <https://oilprice.com/Energy/Natural-Gas/How-Important-Are-Egypt-Gas-Discoveries.htm>.

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

whereby it is foreseen that a second one will follow¹¹. Turkey has not signed any EEZ agreement in the region, as Ankara has not signed and therefore does not apply the UNCLOS. Finally, the signature, in November 2019, of the Memorandum on setting maritime boundaries in the Mediterranean between Turkey and the Tripoli-based Government of National Accord (GNA) should be noted as a bilateral step of Ankara and Tripoli in realizing their own perception of EEZ delimitation in the Mediterranean^{12 13}.

The East Med gas export options

In general terms, there can be two options to export gas globally: through pipelines and through LNG carriers. In the case of the Eastern Mediterranean, both options are discussed by most countries of the region, on a bilateral and a multilateral level, through regional cooperation schemes. First option considered involves the construction of a pipeline: the fact that the above-mentioned reserves could become an alternative energy source for the EU has made the option of constructing a long subsea pipeline, very attractive. As a result, the proposed East Med pipeline¹⁴ of approximately 1.900 kilometres long (700 onshore, 1.200 offshore) with a capacity to deliver up to 20 bcm/y (initially 10 bcm/y), comprises: a) compressor stations in Cyprus and Crete, b) a pipeline from Israel gas fields to Cyprus, c) another pipeline connecting Cyprus to Crete and d) an onshore pipeline from Crete crossing mainland Greece up to the Ionian coast (Igoumenitsa port). From there, the East Med is scheduled to connect with the offshore Poseidon pipeline project (IGI- Interconnector Greece-Italy)¹⁵. Overall construction of the East Med is expected to cost approximately €8 billion, taking into account current prices.

"The final investment decision (FID) is expected in 2022."

In December 2017, Cyprus, Israel, Italy and Greece signed a Memorandum of Understanding "to explore the possibility of the construction of a natural gas pipeline linking Leviathan to European markets"¹⁶. In the same year, the European Commission labelled the project technically feasible and economically viable and has therefore included the East Med pipeline in the list of the projects of common interest (PCIs), thus granting potential future financing from EU funds, particularly an EU-funded (\$100 million) feasibility study¹⁷. The relevant intergovernmental agreement was signed between the leaders of Greece, Cyprus and Israel in Tel Aviv on March 20, 2019 in the presence of US Secretary of State Mike Pompeo, in a sign of strong support from Washington to the project. Finally, on January 2, 2020, another intergovernmental agreement on the realization of the project was signed in Athens and on July 19, 2020, the Israeli government officially approved the agreement, thus allowing the signatory countries to proceed with pipeline construction by 2025¹⁸. The accord also includes provisions for ensuring the security of the pipeline and a common tax regime. The final investment decision (FID) is expected in 2022¹⁹.

¹¹ See Reuters, <https://www.reuters.com/article/us-egypt-greece-idUSKCN252216>

¹² See AP News, "Turkey: UN registers maritime deal reached with Tripoli", <https://apnews.com/article/turkey-libya-middle-east-mediterranean-sea-united-nations-c3b58ad6c45eb97ea64fe48813257a76>

¹³ See Middle East Monitor, "What does the UN registration of the Turkey- Libya maritime agreement mean?", <https://www.middleeastmonitor.com/20201020-what-does-the-un-registration-of-the-turkey-libya-maritime-agreement-mean>

¹⁴ The East Med pipeline was proposed initially by the US in 2011 as an alternative supply route of gas of the Eastern Mediterranean fields to Europe, with the aim to compete with Russian gas.

¹⁵ The project is being developed by Greece's state gas corporation DEPA's subsidiary company IGI Poseidon S.A in which Edison holds a 50% share and has been included in the PCIs list of the EU.

¹⁶ See European Parliament (July 4, 2017). Parliamentary questions: Answer given by Mr Arias Cañete on behalf of the Commission. <http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2017-003056&language=EN>

¹⁷ See "Projects of common interest", European Commission, <https://ec.europa.eu/energy/en/topics/infrastructure/projects-common-interest>.

¹⁸ See Al Jazeera. "Greece, Israel, Cyprus, move to build East Med gas pipeline". www.aljazeera.com.

¹⁹ See Reuters, <https://uk.reuters.com/article/uk-israel-europe-natgas-idUKKCN24K0FJ>

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

"...the project enjoys strong political support not only from the countries involved but also from the EU- as mentioned above- and the US."

In economic terms, this project is considered as an expensive export option, as its construction presupposes an average selling price of \$8/BTU and there is a big number of compression stations along its route. It is therefore estimated that it would take at least 10 years to recover the initial expenditure. In commercial terms, the gas exports through the East Med pipeline towards Europe (initially 10 bcm/y, later 20 bcm/y) would represent only a mere alternative supply option to the huge supplies from Russia and the increasing LNG share in the European energy mix. The average price of gas in Europe in the last years was around \$5.40-6/BTU, and not much less than that in Israel- \$5.30/BTU. It can become commercially viable if the price of gas in Europe exceeds \$8/BTU and stays high for the longer term, or if it receives a big EU grant, possible from the EIB (European Investment Bank). Despite all that, the project enjoys strong political support not only from the countries involved but also from the EU- as mentioned above- and the US. There are multiple reasons for that: first of all the East Med pipeline would provide for an alternative to Russia supply source for Europe, secondly it would upgrade the geostrategic leverage of the Eastern Mediterranean region, and thirdly its route would circumvent Turkey and will send gas supplies directly to an EU country- Greece- and on to Italy and potentially Austria, to the large gas storage facility in Baumgarten.

"The official strategy of Cairo is to develop indigenous natural gas resources, with the double aim to increase gas production rates and to export significant amounts to Europe in the immediate future."

On the other hand, there is the LNG export option with Egypt being the driving force in the Eastern Mediterranean region as far as LNG is concerned. The first Production Sharing Agreements (PSAs) were signed back in the 1970s with some of the global energy majors like Eni, Shell and BP. Since then, Egypt has consistently attracted major investments in its vast deposits, either in the Mediterranean or in the Red Sea and the Nile Delta²⁰. In present time, Egyptian gas production has increased to 7.2 bcf/d²¹, whereas Egypt has succeeded in becoming a net exporter of natural gas, leaving behind its status as net importer. In 2025, the gas surplus is expected to reach 20-25 bcm/y, thus offering the option to export significant amounts of LNG. As things stand today, according with the official announcement of the Egyptian Natural Gas Holding Company (EGAS), the company is finalizing six new gas agreements worth a total of \$731m in investments and a signature bonus estimated at \$14m. The official strategy of Cairo is to develop indigenous natural gas resources, with the double aim to increase gas production rates and to export significant amounts to Europe in the immediate future.

Egypt's natural gas infrastructure is the most developed in the area, with two large LNG terminals- Idku and Damietta- whereas the Suez Canal offers a magnificent trade route for oil and gas. Furthermore, the partially state-owned Egyptian company Sumed is building a new large-scale LNG terminal in the Gulf of Suez. Following the discovery and the fast-track development of Zohr, a private Egyptian company, Dolphinus Holdings, agreed in February 2018 to buy gas from Noble Energy and its partners in Israel's two largest offshore fields, Leviathan and Tamar²². Further on, in September 2018, Cairo and Nicosia signed a deal for the construction of a subsea pipeline to export gas to Egypt, Shell being the initiator behind this agreement as it is the operator of both the Idku facility and a partner at the Aphrodite field consortium²³. The agreement was signed based on purely commercial terms, as it provides for a more immediate outlet option for Israeli gas, in the form of LNG, the East Med pipeline being a more distant gas export alternative²⁴. Fact is that the Israeli Ministry of Energy needs immediate net income for the state budget coming from energy exploration and exports²⁵. Also, from a security point of view, the agreement solves the issue of onshore gas transit

²⁰ See Charles Ellinas (2018). Dreams Versus Reality in the Push for Cyprus Gas. Cyprus Mail. Available at <https://cyprus-mail.com/?p=222210>

²¹ See Daily New Egypt, <https://dailynewegypt.com/2020/09/20/egypt-signs-6-new-gas-exploration-agreements-worth-731m/>

²² See Haaretz, "Israel selling gas to Egypt: mark of the real new Middle East", September 27, 2018, <https://www.haaretz.com/israel-news/.premium-israel-selling-gas-to-egypt-mark-of-the-real-new-middle-east-1.6512663>

²³ As a recent development, Noble Energy has been bought by Chevron and as a result the latter has acquired all participating stakes of Noble Energy in exploration and transportation projects in the Eastern Mediterranean.

²⁴ See Haaretz, "With exports to Jordan and Egypt, Israel becoming key player in Mideast gas market", <https://www.haaretz.com/israel-news/business/with-exports-to-jordan-and-egypt-israel-becoming-key-player-in-mideast-gas-market-1.65294>

²⁵ See Haaretz, <https://www.haaretz.com/israel-news/.premium-israel-may-need-egyptian-gas-too-says-expert->, accessed September 15, 2020.

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

through the vulnerable El Arish area and secures gas imports for energy hungry Egypt in the long- term.

It is also to be noted that already some first amounts of gas from Tamar field are being exported to Egypt for liquefaction. The “dominant” energy company in the whole region is Chevron, as it is the operator in Leviathan, Tamar and Aphrodite, thus having a comparative advantage in the decision- making process as far as liquefaction and export through the LNG terminals in Egypt is concerned, particularly from Idku terminal. The realization, therefore, of the planned subsea pipeline from Israel, carrying gas of Leviathan, to Idku in Egypt, potentially with an interconnection with Aphrodite in Cyprus, is considered at present time as the optimal scenario for exports to Europe. This option of linking directly the fields of Israel and Cyprus with Idku may be expensive, due to big depths in the Mediterranean, however it is certainly a more rational option in comparison with the East Med pipeline, taking into account present economic conditions. From a security point of view, this option also avoids any onshore export option, particularly following recent climax of tensions in the Gaza Strip and any potential threat against Israeli critical offshore infrastructure coming from Hamas. Bearing in mind all relevant economic and security factors, as well as the dominant position of Chevron in the region, it is therefore assessed that the subsea Israel- Egypt pipeline would be the optimal solution for the first Eastern Mediterranean gas exports to Europe.



Eastern Mediterranean energy diplomacy

“The EMGF was launched in January 2019 in Egypt, when the Ministers of Energy of Egypt, Cyprus, Greece, Israel, Italy, Jordan, and the Palestinian Authority met in Cairo to discuss the establishment of the Forum.”

Cairo has been engaged in active and constructive energy diplomacy in the past few years, aiming to combine all interests involved: satisfy its own energy needs, upgrade the usage of Idku and Damietta facilities, work together with Cyprus and Israel, as well as with Greece, to implement a cooperative, multilateral energy strategy in the Eastern Mediterranean and thus coordinate the gas exports to Europe both through its own LNG terminals and also through the East Med pipeline in the future²⁶. In this respect, it is worth noting that Egypt, although not a participant state in the pipeline, it supports fervently the project with the other member states of the East Med Gas Forum (EMGF), the regional energy organization in the Eastern Mediterranean.

The EMGF was launched in January 2019 in Egypt, when the Ministers of Energy of Egypt, Cyprus, Greece, Israel, Italy, Jordan, and the Palestinian Authority met in Cairo to discuss the establishment of the Forum, which would serve as the umbrella for cooperation and dialogue

²⁶ See Gina Cohen, “Presentation on Israel’s energy sector”, 3rd Workshop on Eastern Mediterranean hydrocarbons research and development, Institute for Energy in South Eastern Europe (IENE), Athens October 30-31, 2018.

"Energy: Factor of Stability or Conflict in the Eastern Mediterranean?"

on the development of gas resources in the entire region. While energy is at the epicentre of the forum, there are also broader geostrategic procedures that led to its establishment, reflecting the common perceptions of the countries involved of the importance of the Eastern Mediterranean to their national security. Although officially the EMGF is open to other countries, the meeting in Cairo did not include representatives from Turkey, Lebanon and Syria. In September 2020, the Ministers signed the chart elevating the Forum into a full-fledged regional organization, with the aim to jointly develop the gas reserves of all participating countries, draft export routes, both with pipeline and LNG carriers and cooperate on pending legal issues, such as EEZ delimitation and various security threats²⁷.

"...the EMGF represents the political aspect of energy development in the Eastern Mediterranean, however the market operates on purely commercial terms."

It has become evident that the EMGF represents the political aspect of energy development in the Eastern Mediterranean, however the market operates on purely commercial terms. Political and geostrategic considerations cast aside, it is ultimately up to the markets and the investing companies to decide if they will engage in a country, and they do so primarily on the basis of commercial factors and risk assessment analysis. If the companies, after they have completed such a process, decide not to invest in the exploration and development of natural resources in a third country or in a major transportation project, no political alliance or foreign diplomacy can force them to do so. Commercial viability and bankability of a project are what really matter for a foreign investing company and global financing institutions²⁸.

"As far as LNG is concerned, Egypt emerges as the key country in the Eastern Mediterranean, as it has the potential to become a gas trading hub."

The effects of the Covid 19 crisis in the global energy market have been immense. Most of the global energy companies like Chevron, Exxon Mobil etc. announced the freezing of all exploration activities and drilling programs until September 2021. The Eastern Mediterranean is no exception. New drillings in Cyprus EEZ are expected to take place in September this year. As analysed above, despite the strong political support from all parties involved in the realization of the East Med pipeline, the market indicators are not yet ripe for issuing the FID, that will allow the actual construction of the pipeline. As a result, it should be expected that actual realization of the East Med project will take place in the next decade. In any case, such projects are long term projects that will benefit for many decades the generations of the countries involved. As far as LNG is concerned, Egypt emerges as the key country in the Eastern Mediterranean, as it has the potential to become a gas trading hub. Gas trading hubs are well established in the North-Western states of the EU and are gaining ground in parts of Southern Europe, such as Italy, as well as in Central Europe. In the Eastern Mediterranean, however, there is neither a market mechanism to buy or sell gas in an efficient manner, nor a pricing mechanism to determine spot prices. Gas sales are still based on traditional long-term oil-indexed bilateral agreements, like in Algeria for instance. Gas exploration and production is also likely to be delayed in Egypt due to the double crisis, despite the signature of new contracts. Nevertheless, the trend in Egypt is positive. Given the current circumstances, the two LNG terminals in Idku and Damietta will be able to process gas from Israel Cyprus, based on the two agreements mentioned above, in order to cover Egypt's domestic consumption and export gas as well. Major exports to Europe are expected to come in the next years from Zohr and Noor, coupled with Leviathan and Aphrodite, provided that investment from the foreign companies will go forward. New results on Block 10 in Cyprus following second drillings in Calypso and Glaucus 1 fields are also expected. Based on all the above data and assessments, Egypt is bound to lead gas exports of the Eastern Mediterranean countries and diversification for Europe, through its LNG terminals. The East Med pipeline could follow later on.

²⁷ See The Arab Weekly <https://the arabweekly.com/east-med-gas-forum-turns-regional-organisation-blow-turkey>

²⁸ See Andreas Stergiou and Marika Karagianni (2019). Does energy cause ethnic war? East Mediterranean and Caspian Sea. Natural gas and regional conflicts, Cambridge Publishing Scholars. 68-69.