

Gas Discoveries in East Mediterranean: A Catalyst for Regional Cooperation

09 July, 2015

The discovery of natural gas resources in the East Mediterranean promise important benefits of energy security and economic gains. A 2010 US geological survey showed that the Levantine basin - offshore Israel, Gaza, Lebanon, Syria and Cyprus - could hold as much as 120 trillion cubic feet, thus securing supply of energy not only for the countries of the region but also for Europe.

Regional countries are currently at various stages of exploration and development which are however fraught by political risks and policy dilemmas. Thus cooperation, conflict resolution and the creation of interdependency structures are prerequisites to unlock the potential of the region and safeguard the unimpeded flow of future gas production.

A leading country for regional energy cooperation is Israel because the preparations to extract gas from its major fields, Leviathan and Tamar, are already at advanced stages. Israel looks into a combination of export options on the basis that gas is a game changer stressing the inevitability between macroeconomics and geopolitics. In this context, priority is given to Jordan as disruptions of energy imports from Egypt have impacted the Kingdom's public budget and fiscal space for broader development goals. The sale of Israeli gas to Jordan falls within Amman's broad strategy for transformational change in energy supply, including a diversification of natural gas imports from alternative sources in the region.

Noble Energy, a heavy foreign investor in Israel's fields, has signed a contract worth \$500 million to supply 66 billion cubic feet of gas from Israel's Tamar field to Jordan's Arab Potash and its affiliate Jordan Bromine. Leviathan partners Noble and Delek have also signed a non-binding letter of intent with Jordan's National Power Electric, which will act as buyer of the gas, to supply 1.6tn cubic feet over a fifteen-year period. Other investigated projects focus on the construction of a 25-kilometer pipeline that would connect northern Israel to northern Jordan, facilitating the supply of natural gas to major Jordanian manufacturing plants. It is broadly acknowledged that infrastructure partnerships between Israel and Jordan can provide real incentives to normalize relations, given that the supply of cheap and reliable energy will bolster the kingdom's economy and that Leviathan partners' export earnings will increase.

An additional option for the monetization of Israeli gas centers on Egypt. Cairo's political instability, heavy regulations, and ceiling on onshore prices have transformed over the years the Arab country from a gas exporter into a heavy energy importer. Although Egypt's total proven reserves are approximately 2.2 trillion cubic meters, its production levels and reserves have not improved despite technological breakthroughs and massive capital expenditures, leaving two major LNG facilities in Damietta and Idku virtually idle.

Thus, pipelines from Israel's gas reserves to Egypt for liquefaction and re-export has become a real choice, taking into account the close distance between the Egyptian and Israeli coasts. The option for the transport of Israeli gas to Egypt through either reversing the flow in the Egyptian export pipeline that crosses Sinai or the construction of a new undersea pipeline seems to be viable not only because of the royalties and revenues Israel will collect but also because of the potential positive impact on Egypt-Israel bilateral relations.

Already, partners of Israel's Tamar field have signed a non-binding letter of intent to export up to 2.5 trillion cubic feet of gas over 15 years via the Damietta LNG plant in Egypt operated by Union Fenosa Gas, a joint venture between Spain's Gas Natural and Italy's ENI. Similarly,

Leviathan partners reached a preliminary agreement with British Gas (BG), a British oil and gas company, to negotiate a deal to export gas to BG's liquefied natural gas plant in Idku (northern Egypt) via a new undersea pipeline. If agreements are finalized, the benefits that will accrue for both countries will be multifold both geopolitically and economically.

Another export option to immediate neighbors includes a subsea pipeline from Israel's Leviathan field to Turkey, but this is currently considered politically non-viable. There is widespread consensus in Israel that without a political reconciliation between the two countries, any advancement of an export agreement remains remote. Reservations are also expressed regarding financial security in any future framework energy agreement between Israel and Turkey, with suggestions centering on that financial security can be provided by a third party such as the U.S. Overseas Private Investment Corporation, the U.S. Export-Import Bank, or the German Euler Hermes company.

It is has nonetheless to be noted that the prospects of developing Israel's natural gas fields have been directly challenged since December 2014 by the Israeli Anti-trust Authority commissioner's recommendation for investing companies to divest from the Tamar and Leviathan fields. The reason is that the Israeli regulatory framework foresees the establishment of a competitive gas market and upon this the anti-trust commissioner has the authority to block any trade agreement perceived as violating competition laws. If investing companies are forced to disengage, the possibility of developing Leviathan will be jeopardized for the coming years. Equal important, the resulting delays in progress on proposed supply projects between Israel and neighboring countries can damage the former's standing and credibility as a reliable supplier of gas resources. Thus, there is urgent need for a policy solution based on considerations that Israel cannot have a truly competitive market as there are two main fields and one meaningful buyer, which is the Israeli Electric Corporation. Practically, a policy solution can satisfy the terms of Israel's anti-trust legislation which allows exemptions from limitations when a sector is viewed to have a natural monopoly.

No doubt that another significant player for regional energy cooperation is Cyprus given that gas discoveries can turn the island into a net natural gas exporter. The recent declaration of commerciality for the Aphrodite gas field by Noble, Delek and Avner Oil partners confirms the existence of substantial recoverable natural gas reserves in Block 12 of Cyprus' Exclusive Economic Zone (EEZ). Commerciality of Aphrodite field presents a milestone to Cyprus' transition from the stage of hydrocarbons exploration to that of exploitation, and a significant step towards the monetization of the island's indigenous natural gas reserves, both for domestic use, as well as exports.

Cyprus has already signed a Memorandum of Understanding with Egypt on gas cooperation for the downstream exploitation of output from the Aphrodite field by utilizing gas infrastructure existing in the Arab country via a direct subsea pipeline. Additionally, the inauguration of a tripartite partnership between Cyprus, Egypt and Greece with the signing of the Cairo declaration in November 2014 falls on maritime security and energy cooperation, and is currently reinforced by high level political and technical meetings. The Greek dimension in the partnership is important because of Greece's strategic location at the crossroads of Europe, Asia and Africa that can cuddle Cyprus-Egypt as well as Israel energy cooperation by linking gas pipelines away from war risk zones.

In monetizing natural gas resources, Cyprus also needs to face a prime challenge associated with one of the multiple regional export options that are on the table, which is the pipeline project that would connect Israel's Leviathan field to the Turkish coast. For the Cypriot side, the prerequisite to this export option is the resolution of the Cyprus conflict since the pipeline would have to cross Cyprus's EEZ.

It is in any case noticeable that a vote of confidence related to the island's regional energy standing is conceded by major oilfield services companies, such as Halliburton and Schlumberger that have based operations for the East Mediterranean in Cyprus.

No doubt that Cyprus's natural gas discoveries present a game changer that poses all kinds of risks and opportunities for the island's economic recovery. It is in this context that policies need to center on the creation of a Cypriot sovereign wealth fund, preferably based on the Norwegian model, to recycle revenues, and the establishment of a regional sponsor-supported non-governmental organization or council that would include energy companies, energy industry service providers, energy industry associations, and other related stakeholders in the region. Once established, the council could seek government participation from the littoral states of the Eastern Mediterranean. It could then become a point of reference and also an avenue of communication between governments and industry, as well as a clearinghouse for ideas and plans for mutually beneficial energy development in the region.

Evidently, the East Mediterranean discoveries provide a golden opportunity for energy security and cooperation, an opportunity that must not be neglected because as it is aptly highlighted in a famous Arabian proverb "three things come not back; the spoken word, the sped arrow, and the neglected opportunity". It is in this spirit that regional countries coordinate policies and share best practices so that the opportunity is not neglected...

Antonia Dimou is Senior Advisor, Research Institute for European and American Studies, Greece, and Associate at the Center for Strategic Studies, University of Jordan