East Med Pipeline: the "Game-Changer" Europe Chooses to Ignore
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East Med pipeline proposal presented by the Greek Public Gas Company (DEPA) for the connection of Cyprus with the Greek mainland via the island of Crete has recently been included in the PCI list ("Projects of Common Interest") by the EU authorities. Its estimated annual flowrate would be equal to 8 billion cubic meters in return of a construction cost of approximately 5 billion USD. This should eventually establish a physical interconnection between the European mainland and the gas reserves at the Eastern Mediterranean basin (Israel 1400 bcm, Cyprus 1250 bcm, **Lebanon 750 bcm** according to estimates from the Israeli Ministry of Energy).

Although some may argue that the prospective flows through this pipeline will not have a noticeable impact on the overall EU energy supply picture (409 bcm in 2014), the potential of East Med pipeline to become a real "game-changer" for Southeastern Europe should be unquestionable. Its projected annual flowrate could match the Russian gas volumes currently exported to the four largest Balkan markets combined; Romania, Greece, Bulgaria and Serbia. In other words, for the first time Gazprom would obtain a real contestant in the region and consecutively supply alternatives and market competition could almost double. Besides the significant economic benefits of expanding the number of market players, using Cypriot (i.e. domestic to the EU) and other Eastern Mediterranean natural gas to expand the supply options of European markets is a direct implementation of the European Energy Security Strategy, the importance of which has only increased in the face of recent sharp changes in Russian foreign policy behavior.

At the same time, such a substantial enrichment of supply options within a geographical area which has been historically "short of gas" in trading terms would increase the utilization of existing border connections and boost the commercial viability of prospective interconnections currently under consideration. The diffusion of incremental quantities not only within the Balkans but also further on towards the European mainland would stimulate investment interest in pipeline projects such as IGB (Interconnector Greece-Bulgaria), IBR (Interconnector Bulgaria-Romania) and Transitgas reverse flow (Italy-Switzerland-Germany), projects which have recently gone through market test exercises but without strong signs of backing by private investors. Moreover, projects such as IAP (Ionian Adriatic Pipeline) or ITGI (Italy-Greece Interconnector) in synergy with the incremental "Third-Party-Accessed" capacity of TAP (Greece-Albania-Italy) would incorporate Southeastern Mediterranean and the rest of Europe under a common physical – and inevitably commercial – network. Just imagine the value of such an integrated gas market with a geographical footprint on three continents as well as the sustainable growth benefits for the Balkan economies sitting at the epicenter of a major energy crossroad.

In addition to stoking infrastructure investment and regional market integration, support for East Med will signal the European Union's strong commitment to the program of transformative political integration and European regional leadership envisaged under the European Neighborhood Policy (ENP). The success of long-term cooperative relations (especially of those that hope to have a transformational effect on some of the participating partners) hinges on the credibility of everyone's full commitment to the achievement of the objectives and a realistic plan of implementation. In this context, Israel is an ENP nation, a key Western strategic ally in a volatile region and a developing energy producer, attributes that make it an ideal case to demonstrate the EU's willingness to support all Neighborhood nations willing to orient themselves towards Western values and a deeper economic integration to the Single Market.

The logical sequence of the aforementioned multi-level beneficial impact of East Med can be succinctly described as follows: more gas available in the system leads to more competition; more competition leads to more participants in the market; more participants trade more and inevitably secure their market footprint through longer-term investments; more investments and more trading activity lead to lower consumer prices, economic growth, jobs, European market integration, geopolitical security and an increase in the regional impact of the European Union.

However, the feasibility of this vision for Europe is strictly subject to the uninterruptible flow of the produced gas under a transparent and open regulatory environment. Choosing to funnel those volumes through a national system which is not obliged to comply with the EU Third Package and a country that is not committed to the vision of establishing a common cross-border energy market seriously threatens the advantages of the Eastern Mediterranean exploitation for Europe. This is why the "energy-thirsty" Turkey is not the ideal destination for Cypriot and Israeli gas, as already suggested by some as the "least-cost solution". It is simply not a coincidence that despite the strong presence of independent gas traders in the domestic market and the existence of healthy cross-regional price spreads, there has never been any spot gas exports out of Turkey. Conversely, Greece is a compliant member of the EU as well as a country whose market fundamentals and indigenous demand don't allow for the "blocking" of the large volumes that East Med is expected to bring ashore. Furthermore, Greece already features bi-directional network connections with Turkey and Bulgaria together with an LNG terminal, hence justifying its potential role as a regional gas hub.

The other discussed alternative for the commercial utilization of Eastern Mediterranean findings has been the LNG export route. Under this scenario, again there is no certainty that these gas quantities will enter the European market. This will only be possible if the Balkan States – who are already paying way more than the average EU gas price – also bridge the necessary price difference in order to incentivize LNG cargos to divert away from other premium markets and instead head to the European shore. In other words, the already "distressed buyers" of gas in the Balkans need to compete against other countries such as China, Japan and India within a global "tight" LNG market.

Overall, it becomes evident for Europe that there is substantial inherent value in committing the gas molecules to flow through EU soil via East Med. As already explained, the associated benefits are of multiple nature and hence it is hard to assign an aggregate financial value to them. But even if that had been possible, still the potential private investors that the EU is seeking to attract in order to back the East Med project would not be in a position to monetize most of it. Therefore, European leaders need to overcome this obstacle by establishing generous and cashable incentives, in order to boost the economics of the East Med pipeline and hence inaugurate a new era for the EU energy future.

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