



Atlantic Council

IN TURKEY

Value Beyond Price:

Prioritizing Political Stability and Regional Integration When Financing Eastern Mediterranean Gas

Olgu Okumuş, PhD





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Abstract

Eastern Mediterranean gas (East Med gas), while a resource deposit rife with economic potential, is nevertheless difficult to develop due to geopolitical rifts and rivalries throughout the region. Though some have argued economic considerations should trump these geopolitical rivalries, these lines of inquiry ignore the very real and existential nature of these conflicts with respect to the countries involved—meaning economic development will not take place until these rivalries are at least somewhat mitigated. Thus, resource-development activities should also contribute to improving regional stability and integration, lest they continue to attempt progression in an environment hostile to their overall success. Too often in the contemporary environment, this is not the case.

This paper argues that economic-development projects must take into account geopolitical rivalries as a reality in determining how to leverage East Med gas, rather than simply hoping that economic potential will override existential political conflicts. It advances this argument through a detailed description of the current state of play for East Med gas, including a discussion of geopolitical realities and superseding national interests for each major aspect

of the region. The paper likewise discusses ways in which regional integration can be strengthened, along with an evaluation of a number of already-existing supra-national frameworks that could be used to evaluate intra-regional cooperation.

Any East Med gas project at scale will need to rely upon financing from international financial institutions (IFIs), such as the World Bank, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), African Development Bank (AfDB), or Islamic Development Bank (IsDB). Thus, this paper argues, such institutions, in the pursuit of shareholder (i.e., national) interests, should require any East Med gas-related projects to include provisions on how such a project would strengthen overall regional integration, in the same way that environmental and social-risk feasibility studies are already included. This will also give inspiring guidance to the private sector, which remains the locomotive of all projects. In this manner, the continued economic development of East Med gas can also foster improved intra-regional cooperation, rather than simply continuing in spite of (or, in some circumstances, even at cross-purposes to) geopolitical realities.

Where does Eastern Mediterranean gas stand?

“No project ignoring Turkey or the Turkish Republic of Northern Cyprus can be realized in the Eastern Mediterranean,” said Turkey’s president, immediately after the EU announced sanctions against Turkey over what it calls “illegal” drilling for oil and gas in the Eastern Mediterranean.¹ Similarly, when Israel carried out a drone attack in Beirut, Lebanon’s president responded, “This is declaration of war that justifies a military response,” although the two countries were just beginning maritime-border negotiations—crucial for both countries, as some of the blocks on offer by Lebanon are in the disputed area, or are already partly being explored by Israel, a sign of the need for regional platforms working for more integration.²

Both of these anecdotes demonstrate that economic measures or compensation alone will not impact Turkey’s Cyprus policy or end the Israel-Lebanon conflict. Moreover, since the beginning of the COVID-19 pandemic, the main energy companies in the region (e.g., Exxon, ENI, and Total) announced they are postponing their activities in the East Med.³ But, Turkey’s public news agency, Anadolu Agency, in May 2020 reported that Turkey is intensifying its East Med gas drilling despite the COVID-19 pandemic, and a new drillship named *Kanuni* was preparing for explorations.⁴ Controversially, the IEA’s *World Energy Investment 2020* edition emphasized that, during the pandemic, the energy industry has seen the largest drop in global energy investment in history, including a fall in oil and gas investment of more than 50 percent since 2014.⁵ Therefore, from an energy perspective, Turkey is taking an undisputable and grave economic risk in order to show political decisiveness in the East Med—a telling trade-off.

East Med gas issues are embedded in the social and political concerns of Turkey, Cyprus, Lebanon, and Israel, and

that strength can trump economic concerns. That is why the hydrocarbon market is now challenging peace in the Mediterranean, as it has for years in the Middle East. In the twenty-first century, armed conflicts in Syria, Iraq, and Libya are the second-biggest concern on the global agenda after COVID-19, and will remain a concern even after the pandemic subsides.

While ethnic and religious divisions may have provided the political and ideological fuel for upheavals in Iraq, Syria, and Libya, some analysts have argued since their beginning that oil revenues and the asymmetrical power of the major energy firms had a major impact on these conflicts.⁶ The same perspective was seen in US President Donald Trump’s statement, “We [the US] left troops behind [in Syria], only for the oil” in November 2019, during his meeting with Turkish President Recep Tayyip Erdoğan. Thanks to this clear and concise sentence, Iraqi, Syrian, and Libyan upheavals do not appear anymore just as independent events, driven by their own unique and idiosyncratic circumstances, but as conflicts interlinked by energy-market pressures.

Therefore, East Med gas cannot be simply considered as a pure global energy market, in which reducing some geopolitical setbacks helps bring about the goals of energy companies in terms of energy commerce. Mediterranean gas resources, which offer an opportunity to diversify European energy supply and enhance energy security, also stand side by side with those conflicts, which presents a risk of regional decline.

The Mediterranean gas identified off the shores of Israel, Cyprus, Egypt, Lebanon, and Palestine has so far attracted the interest of major energy companies, though it is not yet commercialized. Several export-route scenarios, including gas-pipeline projects, have been discussed for

- 1 Rabia Ical Turan, “Turkey Will Resolutely Continue Explorations in East Med,” Anadolu Ajansi, August 22, 2019, <https://www.aa.com.tr/en/politics/turkey-will-resolutely-continue-explorations-in-e-med/1562678#>. The Turkish Republic of Northern Cyprus is not recognized by the United States or the European Union.
- 2 A Lebanese government investigation blamed Israel for a pair of drones that crashed in Beirut in August 2019. “Cyprus Approves ENI, Total, Exxon Offshore Block Deals,” Reuters, March 17, 2017, <https://www.reuters.com/article/energy-cyprus/cyprus-approves-eni-total-exxon-offshore-block-deals-idUSL5N1GU3I6>. Drones were flown on an attack mission, and one was armed with 4.5 kilograms (10 pounds) of explosives. The Israel Defense Forces refused to publicly comment on the incident. For more information, “Lebanon President: Israel Drone Attack a Declaration of War,” Al Jazeera, August 26, 2019, <https://www.aljazeera.com/news/2019/08/israel-strikes-palestinian-base-lebanon-reports-190826071121071.html>.
- 3 “COVID19: ExxonMobil Postpones Cyprus Energy Drills,” *Financial Mirror*, April 13, 2020, <https://www.financialmirror.com/2020/04/13/covid19-exxonmobil-postpones-cyprus-energy-drills/>; Charles Ellinas, “Oil and Gas Companies on the Retreat,” *Cyprus Mail*, March 29, 2020, <https://cyprus-mail.com/2020/03/29/oil-and-gas-companies-on-the-retreat/>.
- 4 Ebru Sengul Cevrioglu, “Turkey Intensifies E. Med. Drilling Despite COVID-19,” Anadolu Ajansi, May 4, 2020, <https://www.aa.com.tr/en/economy/turkey-intensifies-e-med-drilling-despite-covid-19/1828274>.
- 5 “World Energy Investment 2020,” International Energy Agency, May 2020, <https://energypolicy.columbia.edu/events-calendar/iea-world-energy-investment-2020>.
- 6 Pepe Escobar, “Syria’s Pipelinistan War,” Al Jazeera, August 6, 2012, <https://www.aljazeera.com/indepth/opinion/2012/08/201285133440424621.html>.

commercialization, and each of them had representation in involved countries' political and economic agendas. In the current geopolitical climate, despite economic feasibility arguments, the most popular project seems to be trading Mediterranean gas to Europe from Egypt's liquefied-natural-gas (LNG) terminal. According to this new project, gas from Israel and Cyprus will head to Egyptian LNG facilities for liquefaction and then be shipped into the European market by European companies. The Eastern Mediterranean Gas Forum (EMGF), established in Cairo earlier this year, will be the legal entity orchestrating this scenario.⁷ This solution has the virtue of strongly serving the short-term individual interests of Israel, Italy, Egypt, Cyprus, Jordan, and Egypt. In addition, recently strengthened trilateral economic and political cooperation between Cyprus, Greece, and Israel is also a new horizon, as this platform is also receiving US support and incorporates the private sector.⁸ However, the fragmenting of dialogues risks the credibility of these projects, by dispersing power and interests among several countries.

“This report analyses reasons why IFIs should include regional integration and political stability as criteria in energy-project assessments, and refuse funding to projects that do not improve the cause of stability in the host country, as well as the region where the country exists”

Even though the EMGF is successfully strengthening and merging its member states' interests, it also appears as a big threat challenging the regional integration, social peace, and political serenity of the same countries. Because this solution is built on excluding some regional partners and neighbors—such as Turkey, Lebanon, Syria, and Palestine—it creates a more vulnerable region as a whole, risks the labefaction of Mediterranean integration, and renders the environment vulnerable to all sorts of security threats. In some way, while the countries that accept becoming part of the EMGF do so to avoid becoming the weak link in the

chain, they risk making the whole chain weaker. The energy companies, not countries, will ensure investment and production, and will make the final decision. However, projects at this size are dependent on IFIs, such as the World Bank, EBRD, EIB, and IsDB. Those institutions are owned by countries, not the private sector. Thus, their priority should be to pursue the interests of their shareholders (i.e., national interests), which means long-term economic and political stability. When IFIs change their paradigm in the prioritization and selection of a project, they also make the business sector part of solutions that create long-term prosperity, instead of obliging them to take measures regarding potential political tensions—especially taking into account the fact that most IFIs are increasingly limited in their abilities to finance any hydrocarbon projects, including upstream, downstream, and midstream gas projects.

This report analyses reasons why IFIs should include regional integration and political stability as criteria in energy-project assessments, and refuse funding to projects that do not improve the cause of stability in the host country, as well as the region where the country exists. Funded projects should definitively enhance the social, political, and economic integration of the beneficiary country and its neighbors. In the same way that an environmental and social risk assessment enables IFIs and investors to take on environmental and social risks, and to boost the impact on development, the political stability and regional integration assessment will help IFIs and borrowers take proactive measures against national or regional conflicts that a project may cause, or to foresee actions to improve existing national and regional integration for increased stability. Moreover, adding this assessment in project-feasibility studies may help countries to better defend their national interest vis-à-vis international giants' search for profits, and turn energy investment into an asset for their political and economic stability, they can achieve realization of the East Med gas potential.

This paper will define two pillar concepts of the above suggestion—regional integration and political stability—by referring to the World Bank's policy for integration. As the World Bank argues, regional integration is the process by which two or more neighbor nation states agree to cooperate and work closely to facilitate flow of trade, goods, capital, services, energy, people, and ideas. They do so because they consider divisions between countries created by poor infrastructure and disconnected policies to be impediments to economic growth. Therefore, as it reduces gaps generated by division, regional integration

7 “Eastern Mediterranean Gas Forum to Promote Regional Energy Cooperation,” *Al-Monitor*, August 5, 2019, <https://www.al-monitor.com/pulse/originals/2019/08/egypt-east-med-gas-forum-founding-members-meeting-israel.html#ixzz68N9A74Aa>.

8 Hellenic Chamber of Commerce, “East Med and the Trilateral Partnership (Greece-Israel-Cyprus) and its Role in Regional Energy Security,” YouTube video, June 2, 2020, <https://www.youtube.com/watch?v=5Qp8FfOOCqY>.

also achieves stability and a reduced perception of politically motivated violence, including terrorism.⁹

In this way, in the specific case of projects that will commercialize East Med gas, IFIs should explicitly focus on projects that strengthen the Mediterranean region as an entity, rather than promote the interests of a specific country or exporter, and aim to bolster mutual understanding among relevant actors, especially for the countries lacking bilateral relations. Existing regional dialogue platforms and cooperation (such as electricity and energy regulation) can potentially become referee points or facilitators for this integration.

This paper will explore

- where Eastern Mediterranean gas stands in national, regional, and global politics, and how it affects existing dynamics;
- how Eastern Mediterranean states, both those involved in energy companies' offshore discoveries and those excluded from this energy bonanza, make their decisions when it comes to Eastern Mediterranean gas;
- where Eastern Mediterranean gas stands in the context of the global gas market from the private sector's perspective;
- how to allow sustainable balances between energy interests and political sensibilities and explore the confluence of interests for energy trade and regional integration in the Eastern Mediterranean; and
- where current integration stands, which roles existing multilateral dialogue platforms can play, and whether energy-conflict mediation should be part of finance negotiations.

⁹ "Understanding Poverty Topics, Regional Integration," World Bank, April 9, 2020, <https://www.worldbank.org/en/topic/regional-integration/overview>; "Governance Indicators," World Bank, accessed June 9, 2020, <https://info.worldbank.org/governance/wgi/Home/FAQ>.

Insiders absorbed into companies' offshore developments

Regional dimension is not a new discussion. Energy interconnectivity was one of the keys of maintaining a regional balance in the Mediterranean between the 1980s and 2011. Following Israel's withdrawal from the Sinai Peninsula in 1979, during the Syrian forces' occupation of Lebanon between 1976–2005, and during the twenty-nine years of the Hosni Mubarak presidency in Egypt, natural gas played a unifying role in regional power. In 2008, Egyptian gas was sent to Israel via the *El Arish-Ashkelon* pipeline, supplying approximately half of Israel's demand; it also went to Jordan, Syria, and Lebanon via the Arab Gas pipeline, and was even predicted to reach Turkey. Regional integration was so prominent at that time that it even resulted in the 2008 Paris Declaration for the Mediterranean, which created the Union for the Mediterranean (UfM).¹⁰ Turbulence in Syria, and in Egypt after 2011, negatively affected this energy traffic, which has since drastically slowed down.

Since 2018, new offshore developments allowed Eastern Mediterranean gas to regain the image of an economically feasible commodity, and multiple gas business scenarios have emerged. The whole scenario turns around five main gas-field developments: Tamar and Leviathan in Israel, Aphrodite and Glaucus in Cyprus, and promising Zohr in Egypt. Except Zohr—where the state-owned Belayim Petroleum owned 10 percent of shares—all developments are owned only by private energy companies, mainly international giants such as Shell, Eni, Rosneft, ExxonMobil, and Qatar Petroleum, along with some mid-size private Israeli companies. Indeed, energy companies' appetite drives some countries to hurry in their decisions, in order to gain the fastest return on investment. This pressure of exploiting as many gas fields as fast as possible absorbs countries to the point that they turn a blind eye and a deaf ear to political difficulties that may raise with their neighbors or further instabilities. As the IFIs consider tacitly enhancing regional integration as a financing criterion (through the prism of ensuring sustainable economic growth via regional development potential)—an explicit consideration similar to the way they perform social and

environment assessments (exploring each gas field from the perspective of internal and external dynamic-absorbing countries)—would include a public contribution. Even if private-enterprise resources outmatch those of the IFIs, public acknowledgment of this variable would insert this consideration into private corporate discourse, in a further example of how IFIs are able to influence overall investment decisions from the margins. In order to contribute to the materialization of this suggestion, this report aims to give multi-dimensional insight into the problems it faces.

Tamar and Leviathan fields

Israel's first discoveries were in 2009, consisting of 200 billion cubic meters (bcm) in the Tamar field and 470–621 bcm in the Leviathan field. Even though both fields combined constituted less than 2 percent of the world's proven gas reserves, they gave Israel new momentum.

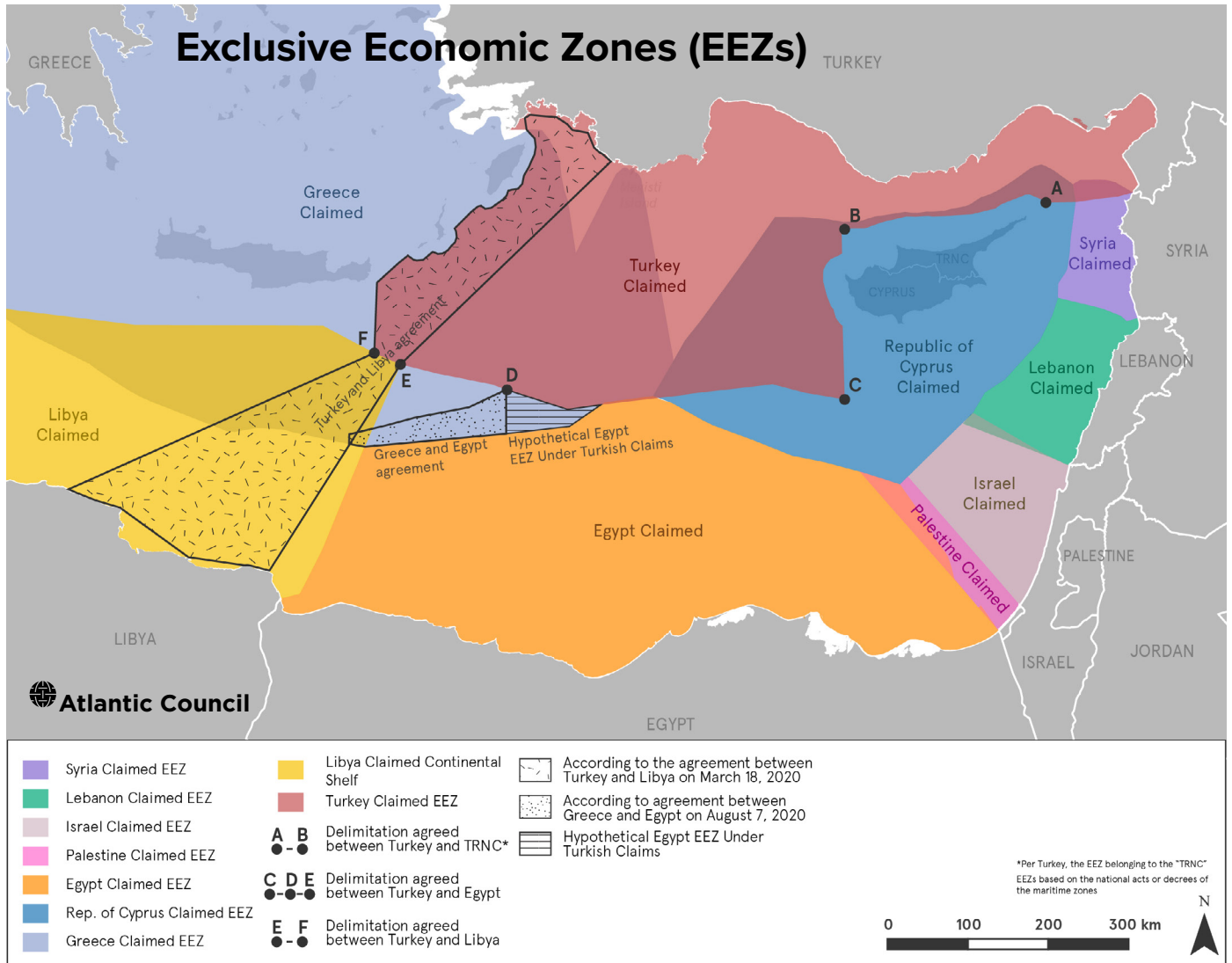
On a domestic level, gas production at Tamar gave Israel a path to end the energy disruptions created after the Egyptian crisis, and to export gas during the 2011 economic protests. In addition, the Israeli government had to fight internally over issues such as taxation rules, license regulation, allocation of natural resources for export, and competition in the energy sector.¹¹ In terms of governance, Israel delegated oil and gas exploration to the private sector and developed a new model, where protecting ownership of the mineral remained at the public-sector level—differing its methods from those of Iran and Qatar, where the oil and gas industry is controlled by state-owned companies, or from those of the United States and Canada, where petroleum resources are completely privatized.¹²

At the international level, Israel used Tamar and Leviathan as foreign policy tools to convert its hostile regional relations into energy business. The delegation to the private sector facilitated public advocacy during negotiations over different export routes. The first export deal was signed with Jordan, for the supply of 1.8 bcm of gas over a fifteen-year period, in 2016; the deal was disrupted by political unwillingness in

¹⁰ For the full text, see "Joint Declaration of the Paris Summit for the Mediterranean Paris," European Union, July, 13, 2008, https://ec.europa.eu/research/iscp/pdf/policy/paris_declaration.pdf.

¹¹ "Israel Antitrust Commissioner Resigns on Natural Gas Policy," Bloomberg, May 25, 2015, <https://www.bloomberg.com/news/articles/2015-05-25/israel-s-antitrust-commissioner-resigns-on-natural-gas-policy>; Stanley Reed, "In Israel, Antitrust Regulator Reviews Natural Gas Development," *New York Times*, December 23, 2014, <https://www.nytimes.com/2014/12/24/business/international/in-israel-antitrust-regulator-reviews-natural-gas-development.html>.

¹² Sujata Ashwarya, "Israel's Mediterranean Gas Governance: Evolution of Domestic Regulations and Emerging Regional Issues," *Asian Journal of Middle Eastern and Islamic Studies* 11, 4 (2017). <https://www.tandfonline.com/doi/pdf/10.1080/25765949.2017.12023319>.



See page 25 for a list of map sources.

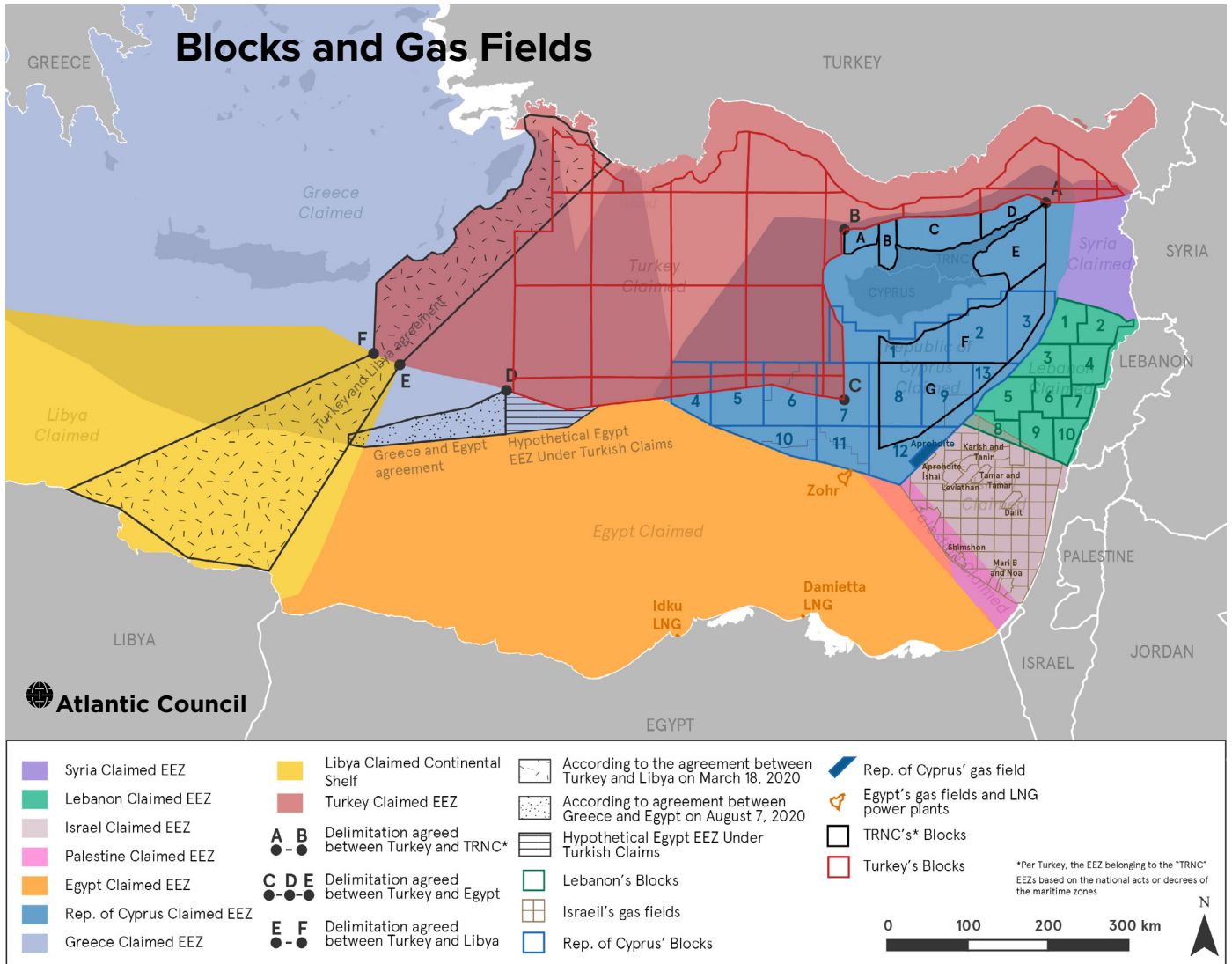
2019.¹³ Israel has started evaluating trading gas via pipelines with Turkey, Lebanon, and Syria—and even a project tied to Palestine’s economy—as well as the option of building a direct offshore pipeline to Greece.

As many gas analysts argued before the technological revolutions in LNG and the COVID-19 pandemic, the fastest and most economically viable option was the Israel-Turkey pipeline, which would also help Turkey diversify its gas-supply routes, buy cheaper gas, reduce its own dependence on Russian supply, and enhance its role as a transit country or a hub for European gas supplies.¹⁴ This option also offered Israel a link to the Trans-Anatolian Natural Gas Pipeline (TANAP) and an opportunity to bolster relations

with Turkey and the EU. But, this option fell through, and each side contributed to the failure. Despite the economic viability of pipelines, the prolonging of the state of war in Syria, Hezbollah’s growing influence in Lebanon, Michael Aoun’s ascent to the presidency in Lebanon, the downgrading of Turkish-Israeli relations following the *Mavi Marmara* incident, and, finally, the official failure of Cyprus talks in July 2017, brought the Israeli private investors of Tamar and Leviathan fields outside of the Eastern Mediterranean pipeline talks. The only solution left was to join forces with the Aphrodite, Calypso, and Glaucus fields for reaching Egypt’s LNG plants. From a political perspective, Turkey chose to give priority to other regional foreign policy issues, at the risk of deteriorating relations with

13 Laith al-Junaidi, “Jordan MPs Call for Cancelling Gas Deal with Israel,” Anadolu Ajansi, March 26, 2016, <https://www.aa.com.tr/en/economy/jordan-mps-call-for-cancelling-gas-deal-with-israel/1430610>.

14 Matthew J. Bryza, “East Med Energy: Restoring Squandered Opportunities,” *Turkish Policy Quarterly*, 17, 3 (2018).



See page 25 for a list of map sources.

Israel and losing public support for this project. The reduction of LNG prices and the increase in recent investments, such as floating storage regasification units (FSRU), have jointly increased the share of LNG in Turkish and European gas markets—which, in turn, has meant pipeline projects are no longer being prioritized. For Turkey, LNG trade offers an opportunity for increasing gas storage capacity—to more than 11 bcm—increasing Turkey’s infrastructure capacity and making it available to become 20 percent of the gas consumption.¹⁵ Thus, LNG represents another key avenue to consider in terms of regional integration, and brings up questions about the nature of the policy dialogue platform for multiplication of new projects.

Aphrodite, Calypso, and Glaucus

One year after the Israeli discoveries, Cyprus’s government issued drilling permits to Noble Energy and Israel’s Delek (members of the Tamar Consortium), which led to the discovery of the Aphrodite gas field (200 bcm) in 2011. The initial estimates were downsized when the Block 12’s resources were revised to 140 bcm in 2013.¹⁶ In 2016, Cyprus launched a new licensing round for Blocks 6, 8, and 10, signing agreements with Italian Eni, French Total, American ExxonMobil, and Qatar Petroleum—which gained larger importance when Egypt announced its official Zohr field. Expectations of Cyprus’s offshore holdings grew after

15 Ebru Sengul, “Two New FSRU Facilities To Be Launched in Turkey,” Anadolu Ajansi, November 20, 2017, <https://www.aa.com.tr/en/economy/two-new-fsru-facilities-to-be-launched-in-turkey/972136>.

16 Simone Tagliapietra, “Energy: A Shaping Factor for Regional Stability in the Eastern Mediterranean?” European Parliament Directorate-General for External Policies, June 2017, [http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578044/EXPO_STU\(2017\)578044_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578044/EXPO_STU(2017)578044_EN.pdf).

Table : Recent gas discoveries in East Med

Gas field	Resources (Bcm)	Discovery	Partner companies
Tamar, Israel	280	2009	Delek Drilling (Israel, 22 percent), Noble Energy (US, 25 percent), Isramco (US, 28.75 percent), Tamar Petroleum (Israel, 16.75 percent), Dor Gas (Israel, 4 percent), Everest (Israel, 3.5 percent).
Leviathan, Israel	620	2010	Delek (45 percent), Noble (39.66 percent), Ratio (15 percent)
Aphrodite, Cyprus	140	2011	Delek (30 percent), Noble Energy (35 percent), British Gas (35 percent).
Zohr, Egypt	850	2015	Eni (60 percent), Rosneft (Russia, 30 percent), Belayim Petroleum (Egypt Public, 10 percent)
Glaucus, Cyprus	142–227	2018	ExxonMobil (60 percent), Qatar Petroleum (40 percent)

2018, when Eni announced the Calypso well and Exxon announced the Glaucus-1 well in Block 10; the latter is expected to more than double Cyprus's estimated offshore resources.

These discoveries came right when Cyprus was going through one of the biggest financial crises in its history. They created massive economic hope, but also reopened latent political tensions, as the exploitation of resources again brought up unresolved sovereignty and recognition issues.

The third-biggest island in the Mediterranean, Cyprus is nearly equidistant to nearby littoral states, and is a multicultural nation with Armenian, Greek, Maronite, and Turkish inhabitants. The island, after being Ottoman land for four centuries, became a British crown colony in 1925. In 1960, the Zurich and London Agreements between the United Kingdom, Greece, and Turkey resulted in Cyprus's independence.

However, the island could not calm tensions between groups. Very early, a fight broke out between groups militating for enosis, union with Greece, and a partition between Turks and Greeks. During the Regime of the Colonels in Greece between 1967 and 1974, and the military intervention in Turkey in 1971, political tensions led to clashes between armed forces. In 1974, Turkish armed forces landed

on the island. Since then, a “Green Line” controlled by the United Nations (UN) divides the island into two parts: a northern part run by a Turkish Cypriot administration (which it calls the “Turkish Republic of Northern Cyprus”) and a southern part led by Greek Cypriots (named the Republic of Cyprus). With the sole exception of Turkey, the world recognizes only the Republic of Cyprus as the entire island's government; Turkey instead recognizes the “Turkish Republic of Northern Cyprus,” maintains tens of thousands of soldiers on the island, and refuses to recognize the Republic of Cyprus as a state. The UN has supported reunification talks, but little progress has been made, with the latest round of talks failing in 2017 despite the presence of the UN secretary-general.

Under those controversial circumstances, despite the objection of both the northern part of Cyprus administered by Turkish Cypriots and Turkey, Cyprus continued to award exploitation licenses. This became more confusing politically in the license-awarding process, when Cyprus followed the private-sector model of opening the market to internationals. The lack of island-based players, and the domination of the internationals, created concerns regarding the national distribution of the income resulting from the project. Cyprus's Aphrodite and Glaucus are shared by Israeli private-sector Delek and US Noble Energy, British Gas, US ExxonMobil, and Qatar Petroleum.

Originally, there were only two export-road options for the gas from Aphrodite, and both were very expensive. It could either be converted to LNG at the Vasilikos oil terminal (which requires adding liquefaction units in the terminal—a considerable investment) or could transit through the East Med gas-pipeline project connecting Israel, Cyprus, Greece, and Italy. Neither of these options was considered cost-effective, particularly when the total proven reserves were considered. However, the discoveries of Calypso and Glaukos strengthened the companies' hands, and the second five-year term of President Nicos Anastasiades ensured the status quo for Cyprus, and Cyprus had the economic and political power to negotiate and develop a joint-export strategy with Israel. With the EU's endorsement of a new government built by President Abdel Fattah el-Sisi, Egypt appeared as a natural third party that both Cyprus and Israel can endow.

From Cyprus's perspective, these gas discoveries represent economic independence, an opportunity to solve the "disputed" sovereignty issue and return to the days of Cyprus being the pivotal island of the Mediterranean trade—but only if this trade becomes more comprehensive. This will help Cyprus take proactive measures against the negative consequences of hydrocarbon economies and inequality in the distribution of natural-resource rents, and also develop an immune system against the so-called Dutch Disease. When economists Max Corden and J. Peter Neary developed the Dutch Disease concept, they looked into the side effects of focusing economic production on one sector—namely, natural resources—and showed how this focus may create constraints for further development and long-term economic growth, because it will make the local economy more vulnerable and sensitive to fluctuations in global energy prices and demand.¹⁷ Different methodologies offer solutions to problems associated with the Dutch Disease, and all of these include comprehensive and inclusive approaches involving the whole of society, including all social and political groups, instead of staying limited to the private sector and political elites. Regional integration ensures that, should the island ultimately benefit economically from these reserves, it will nevertheless remain inoculated from some aspect of Dutch Disease. This argument also has a nexus with eventual environmental concerns as, in the case of an accident in the gas fields, all inhabitants of the island will be affected immediately, similar to what happened during the Deepwater Horizon

oil spill in the Gulf of Mexico in 2010. Comprehensive and inclusive policymaking would allow the island to develop economic and social solutions, such as a Disaster Relief Emergency Fund.

For sustainable solutions, there is a need to manage public expectations and open public dialogue. This was also considered one of President Anastasiades's resolutions for the year 2019.¹⁸ This dialogue should involve all actors on the island, including not only both island governments, but also all civil-society and economic interest groups, emphasizing the need for comprehensive dialogue platforms at a local, as well as international, level.

Zohr field

In Egypt, offshore exploration activities started in the 1960s, reaching more than 60 bcm per year gas production in 2010. However, alongside the political turbulence of 2011, Egypt went through energy disruptions and shortages. In 2015, Eni's Zohr gas-field discoveries (850 bcm) not only provided a hope of reversing the curse for Egypt, but also redefined the outlook of Mediterranean reserves. Thanks to gas production in Zohr, Egypt's production increased up to 30 percent in 2016 and, in 2018, Egypt became self-sufficient in natural gas and started exporting LNG volumes—20 tons per day—on the global markets through the Idku terminal.¹⁹

Above all, Zohr gas became Cairo's trump card for meeting domestic gas demand and reducing energy price subsidies. Cairo seized the opportunity to change the trend, announced a new gas-market law and regulation reforms in the domestic gas market, and established its gas regulator. This is a positive step toward a fully liberalized and competitive gas market, even though implementation of new regulations is not yet completely clear.²⁰

Zohr is located 90 kilometers (km) from Aphrodite of Cyprus and 7 km from Leviathan of Israel. Naturally, its impact went beyond Egypt and created a natural space for triangular coordination and cooperation, as development of these three fields offers an economy of scale and a competitive regional gas-export infrastructure.²¹ This geographic closeness has helped Cairo rebuild its political bridges with the EU through support for Cyprus, and through the prospect of exporting to Europe, Israel, and the United States. Egypt

17 Max Corden and J. Peter Neary, "The Dutch Disease," *Economist*, November 26, 1977, 82; "Booming Sector and De-Industrialisation in a Small Open Economy," *Economic Journal*, December 1982.

18 Elias Hazou, "2019, a 'Pivotal Year' for Cyprus Says Anastasiades," *Cyprus Mail*, December 31, 2018, <https://cyprus-mail.com/2018/12/31/2019-a-pivotal-year-for-cyprus-says-anastasiades/>.

19 "Egypt Country Profile," US Energy Information Agency, May 24, 2018, <https://www.eia.gov/beta/international/analysis.php?iso=EGY>.

20 Mostefa Ouki, "Egypt—a Return to a Balanced Gas Market?" Oxford Institute for Energy Studies, June 2018, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/06/Egypt-a-return-to-a-balanced-gas-market-NG-131.pdf>.

21 Tagliapietra, "Energy: A Shaping Factor for Regional Stability in the Eastern Mediterranean?"

already has in place a large LNG export infrastructure in Ildku and Damietta, which will be expanded, allowing Israeli and Cypriot developers to have a flexible outlet to Europe.²² The Spanish-Egyptian Gas Company (SEGAS), owned by Union Fenosa Gas (80 percent) and by EGPC and EGAS (10 percent each), runs Damietta, while a joint venture that includes Shell, Petronas, EGAS, EGPC, and ENGIE operates Ildku. In February 2018, Egypt and Israel signed a \$15-billion gas deal that would see Delek Drilling and Noble Energy supply Egypt with natural gas from the Tamar and Leviathan fields. The economic attractiveness of the Egyptian LNG project (ELNG), will also face a delay as, since the beginning of the COVID-19 pandemic, Exxon, Eni, and Total have all announced they are postponing their investments in East Med fields.

The number of international companies in Egypt's energy market shows the positive impact of revolutionary reforms in regulations; however, it also provides insight on what kind of priorities weigh more. In the current circumstances, security is one of the most important vulnerabilities of the EMGF. The EMGF not only neglects the internal political tensions of Israel and Cyprus, but also excludes Turkey, the second-largest standing military force in the North Atlantic Treaty Organization (NATO). This triangular energy cooperation could have taken advantage of sharing the Mediterranean Sea with Turkey and used Turkey's military power to ensure the security of those LNG investments, rather than risking a repeat of the unfortunate experience of the Arab Gas Pipeline (AGP).

The Arab Gas Pipeline, which at its peak carried 10 bcm of gas per year from Egypt to Jordan, Syria, and Lebanon, aimed to become an Arab cooperation project. In January

2008, Turkey and Syria signed a memorandum of understanding (MoU) for the extension of the AGP to the Turkish border, and the AGP was meant to later join the planned Nabucco Project running to Europe. But, they suspended that plan when, at the beginning of the 2011 Egyptian protests, terrorists attacked the pipeline. In the East Med energy cooperation, Egypt can offer lessons learned from the AGP, and can invite partners to enhance the established EMGF by taking advantage of regional security forces.

In the same way that commercial interests prevail over the security, social, and environmental threats that countries hosting gas fields can encounter, the legacy of unresolved political concerns establishes red lines and creates an axis of excluded countries, disturbing regional integration and weakening the stability of the whole ensemble. In this perspective, the suggestion of openly including criteria about enhancing regional integration and stability (rather than including them only within the prism of overall sustainable economic growth) as one of the funding criteria of the IFIs would oblige investors to assess the project in terms of its effects on countries that have been left outside the projects and their economic interests. Therefore, the project assessment will incorporate an analysis of the boundaries of other countries and partners, and will explore how to accommodate them, in order to enhance regional integration in other areas despite differences on this specific topic. This approach needs the time such a process and reflection would require—perhaps fortuitously, the likely delays in final investment decisions being caused by the COVID-19 pandemic will have the knock-on effect of affording all actors this time. The below section aims to start a long-term effort that can be completed in multi-dialogue platforms, with all parties represented and with equal rights to vote.

22 Ibid.

Outsiders bound into the political limits

The EMGF cooperation in the Mediterranean leaves five decisive actors behind: Ankara, North Nicosia, Beirut, Damascus, and Ramallah. Each of those capitals found themselves in an outsider position, because they had to defend their political limits, going beyond just the gas trade. Ankara defines this limit as recognition of its role as a guarantor power in the region, and builds its strategy on North Nicosia's struggle for claiming sovereignty and recognition, which also joins the independence concerns of Beirut and Ramallah. As the gas developments are mainly in offshore areas, those political concerns crystalized on the delimitation of the Mediterranean Sea, which again made comprehensive regional cooperation a must.

There is much speculation involving delimitation disputes in the Mediterranean, which itself involves the terms of the UN Convention on the Law of the Sea (UNCLOS). The convention stated that a country's territorial waters can stretch up to twelve nautical miles off its coastline, but its exclusive economic zone (EEZ) can extend two hundred miles from the shore. Within this EEZ (and, likewise, its continental-shelf claim), a country can claim fishing, mining, and drilling rights. When the distance between two countries is less than four hundred miles, they need to agree on a line dividing their claims.

Two main tensions regarding East Med gas result from different interpretations of UNCLOS. Turkey has postponed signing the convention because of the rights that the convention grants to island territories—a salient point for Ankara, given the number of Greek islands off the Turkish coast. Turkey instead makes its own continental-shelf interpretation limiting the rights of Cyprus and Greek islands.²³ And Lebanon, Israel, and Cyprus have not reached an agreement on their maritime borders, which creates an overlap between Israel and Lebanon's claimed EEZs. Lebanon (in 2007) and Israel (in 2010) signed bilateral maritime-border agreements with Cyprus. Lebanon later unilaterally cancelled the agreement, and instead referred to the UNCLOS conditions. However, Israel continues to refer to this bilateral agreement with Cyprus to define its maritime

border with Lebanon. This became crucial in 2018, when Lebanon sold permits for drilling blocks of its claims, which contained part of the disputed zone—an issue further illustrating the need for regional platforms to discuss such disputes.

Balancing act

Since the beginning, Turkey has played various roles in the Eastern Mediterranean gas negotiations, but only two of them are linked to Turkey's energy demand. First, Turkey is the geographically closest client for East Med gas, and its energy demand is growing. Second, it is potentially an energy hub where East Med gas can transit to Europe. Last, but not least, Turkey not only asserts itself as the guarantor power of Turkish Cypriot rights, but also has the power to support Libya's UN-backed Government of National Accord.²⁴

The option of purchasing East Med gas recently lost its original attractiveness for Turkey. A pipeline running from Israel to Turkey, connecting to TANAP, could have potentially provided cheap gas to Turkey, responding to its growing energy needs and reducing Russia and Iran's advantage over Ankara.²⁵ But, since 2017, Turkey started breaking its thirty-year-long dependency on Russian gas, thanks to the reduction of LNG prices and recent investments to increase capacity. The total share of LNG in the Turkish gas market has increased, and the gas coming via pipeline from Russia has correspondingly fallen to 33 percent.

However, Turkey's role as an energy hub remains important. Linking the East Med gas pipeline project to TANAP could significantly contribute to this objective, as TANAP has become operational. The southern leg of TANAP could also open the path for merging Iraqi and Syrian gas through a southeastern pipeline. With this goal of joining the southeast Mediterranean and Caspian gas, Turkey asserts itself in the region and challenges Russia—a position that, incidentally, one might have expected to be strongly supported by NATO members and Europe.

23 "Study of the Current Status of Ratification, Implementation and Compliance with Maritime Agreements and Conventions Applicable to the Mediterranean Sea Basin," European Commission, December 2009. https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/docs/body/mediterranean_02_en.pdf.

24 Nael M. Shama, *Gas and Conflict in the Eastern Mediterranean*, Atlantic Council, February 19, 2019, <https://www.atlanticcouncil.org/blogs/energysource/gas-and-conflict-in-the-eastern-mediterranean>;

Daren Butler and Tuva Gumrukcu, "Turkey Signs Maritime Boundaries Deal with Libya amid Exploration Row," Reuters, November 28, 2019, <https://www.reuters.com/article/us-turkey-libya/turkey-signs-maritime-boundaries-deal-with-libya-amid-exploration-row-idUSKBN1Y2131>; "Turkey Sends Libya Maritime Accord to UN for Approval," Al Jazeera, December 12, 2019, <https://www.aljazeera.com/ajimpact/turkey-sends-libya-maritime-accord-approval-191212115824059.html>; "Violence Escalates in Libya Following Turkey Pledge," *Financial Times*, December 20, 2019, <https://www.ft.com/content/fb237264-2337-11ea-92da-f0c92e957a96>.

25 Matthew J. Bryza, "East Med Energy: Restoring Squandered Opportunities," *Turkish Policy Quarterly* 17, 3 (2018).

In the same way, Turkey has defied Russia in Libya, when the Turkish government signed an MoU on maritime boundaries and security cooperation with Libya's Government of National Accord on November 27, 2019. The security-cooperation leg of the agreement immediately prompted a reaction from Russian authorities.²⁶ General Khalifa Haftar's Libyan National Army, supported by the United Arab Emirates (UAE) and Moscow, has attacked Tripoli. Meanwhile, the Turkish Parliament approved an agreement between Turkey and Libya on military cooperation, and Ankara is now defending the Government of National Accord against these attacks.²⁷ This military deployment will put Turkey on the field in combat against Russian-backed troops—again, something one might have expected to be strongly supported by NATO members and Europe. Meanwhile, the maritime leg of the agreement enhanced Turkey's isolation in the region, since neither Egypt nor Greece approved it. Greece would consider this accord absurd, as it does not take into account the Greek island of Crete, located between the Turkish and Libyan coasts.

The maritime-border agreement with Libya, in the short term, can allow Turkey to legitimize the presence of drilling ships, and, in the long term, can revitalize strong economic ties between the two states. Taking into consideration Libya's 1495-bcm gas reserves, this can also return Turkey to the confluence of East Med gas negotiations.

The exploitation of mineral resources added an additional layer of discord on the island of Cyprus. Turkey, along with the northern part of Cyprus administered by Turkish Cypriots, argues that neither of the Cypriot governments alone can legitimately represent all inhabitants of the island, nor decide on the future of its mineral resources, as they jointly founded the 1960 Republic of Cyprus.²⁸ Any unilateral action in this field, including offshore hydrocarbon development, will ignore the rights of the Northern Cypriot government and, thus, create an unfair *fait accompli*.

The most recent reports from the UN operation in Cyprus take a similar view. "The natural resources found in and around Cyprus should benefit both communities and should provide a strong incentive to find a durable solution to the Cyprus problem...concerned to work in earnest

towards a mutually acceptable and durable solution," the UN secretary-general noted in April 2019.²⁹

From the Cypriot government's perspective, this proposal contradicts Cyprus's stance on sovereign right to explore in its EEZ, which is not a bi-communal matter. In addition, it believes that such proposal will put the the Turkish Cypriot administration, which is not internationally recognized, on an equal footing with the internationally recognized EU-member Republic of Cyprus. However, the Cypriot government recognizes both communities' rights regarding the island's offshore natural resources. Within this frame, the Cypriot government accepts to share revenues with the inhabitants of Northern Cyprus only under a united Cyprus regime—which brings back the Turkish and North Nicosia government's argument of *fait accompli*. This controversy is about existence, sovereignty, and recognition. It reflects the different perspectives of both sides regarding how to transition from the status quo to a reunited form. This, in turn, points to yet another reason why Turkey did not sign the UNCLOS treaty.

While the three sides are stuck in this Gordian knot, they have started acting illegitimately, throwing diplomatic black-mail at each other and threatening peace. South Nicosia has signed exploration and production agreements without consulting northern inhabitants of the island. Ankara and North Nicosia have signed a continental-shelf delimitation agreement, and issued licenses to Turkish Petroleum (TPAO) for seven offshore blocks and one onshore block, despite North Nicosia having no international standing to do so. Moreover, two of these blocks overlap with approximately 40 percent of the island's southeastern blocks, making North Nicosia's actions even harder to justify. Turkey, which does not recognize UNCLOS, argues that Blocks 1, 4, 5, 6, and 7 in the southwest of Cyprus overlap with the Turkish continental shelf, and refuses to allow any exploration in these blocks.

Ankara, acting as the guarantor power of North Nicosia, has sent the drilling vessels *Fatih* and *Yavuz*, along with the seismic vessel *Barbaros Hayrettin Pasha*, to take advantage of these questionable concessions. Both the EU and the United States condemned Turkey's move. Even though public information on the cost of both drilling vessels is unavailable, one estimate suggests that it could be as high as 90 percent of an oil producer's total investment.³⁰ Therefore, in addition to political risks, these

26 Kiril Semenov, "Are Russia and Turkey in Tug of War over Libya?" *Al-Monitor*, December 16, 2019, <https://www.al-monitor.com/pulse/originals/2019/12/russia-turkey-libya-hifter-sarraj.html#ixzz68RK7wv70>.

27 Emin Avundukluoglu, "Turkish Parliament's Foreign Affairs Committee Approves Agreement between Turkey, Libya on Military Cooperation," *Anadolu Ajansi*, December 16, 2019, <https://www.aa.com.tr/en/politics/turkey-committee-approves-military-deal-with-libya/1675207>.

28 Mithat Rende, "Doğu Akdeniz Krizi: Türkiye Geri Adım Atmalı mı?" *Ekonomist*, July 14, 2019, <https://www.ekonomist.com.tr/mithat-rende/dogu-akdeniz-krizi-turkiye-geri-adim-atmali-mi.html>.

29 "Reports of the Secretary-General on His Mission of Good Offices in Cyprus," United Nations Security Council, April 16, 2019, <http://www.uncyprustalks.org/tag/sg-report/>.

30 "Trends in US Oil and Natural Gas Upstream Costs," US Energy Information Administration, March 2016, <https://www.eia.gov/analysis/studies/drilling/pdf/upstream.pdf>.

drillings also have high economic costs for Turkey, which is already undergoing a difficult recession.

From Turkey's perspective, South Cypriot exploration is not just ignoring both Turkey and the northern part of Cyprus administered by Turkish Cypriots; it is also violating Turkey's continental shelf, and creates a position where Turkey must insist on the full defense of its maritime jurisdiction area. In addition, Turkey has stressed how Cyprus's attitude is violating UNCLOS Article 74, related to exclusive economic zones, and Article 83, which relates to continental shelves.

Article 74 tackles the delimitation of the exclusive economic zone between states with opposite or adjacent coasts, and calls that this situation "shall be effected by agreement...in order to achieve equitable solution...the States concerned, in a spirit of understanding and cooperation, shall make every effort to enter into provisional arrangements of a practical nature and, during this transitional period, not to jeopardize or hamper the reaching of the final agreement."³¹

Turkey also refers to a trend in international jurisprudence toward awarding islands a reduced effect in maritime-boundary delimitation, and gives examples from all over the world, such as the UK, France, Denmark, Norway, Papua New Guinea, and Australia. It argues that Cyprus, as well as the Greek islands in the area (including Castelorizo), cannot generate full EEZs or continental-shelf claims under international law, as they distort the equitable delimitation.³² Finally, Turkey states in its official position that parties have created a *fait accompli* instead of exploring options stated in the UNCLOS, such as third-party solutions, arbitration, joint management, joint development, or bilateral maritime-boundary delimitation agreements on the overlapping claims.

In all of the above-discussed interests of Turkey with respect to East Med gas, balancing its power relations with its southern and northern neighbors emerges as an objective that limits the number of possible solutions. Surprisingly, in its advocacy for East Med gas, Turkey does not make this target public. To break this bottleneck, Turkey may advocate more on possible collateral effects, rather than on any concession in the East Med that may cause a shift in power dynamics with Russia vis-à-vis its historical allies, or pushing strongly on actions that may be perceived as provocative or basing its position solely on the right of Turkish Cyprus to exist. From this perspective, investing

more in regional-cooperation platforms would only support Turkey in its cause, as this would make it part of a strong chain that is able to work in concert via these platforms (or at least, not at cross purposes). Moreover, it would soften dialogue on contradictory issues.

The energy autonomy for independence

The quantity of Lebanon's hydrocarbon reserves is uncertain, but the development of these reserves would certainly help the country reduce its energy-import dependence, which reaches more than 97 percent of total energy consumption, and constitutes more than 10 percent of total GDP.³³

Lebanon's hydrocarbon production faces mostly internal governance issues. In 2012, UK-based Spectrum ASA estimated Lebanon's gas reserves at 700 bcm, but the Lebanese government could not launch the first oil and gas licensing before 2017, as the country could not build a consensus on a government for many months. The most flagrant example is the case of the establishment of the Petroleum Administration Company, which was delayed because of a lack of consensus on the representation of religious communities inside the institution.

From Lebanon's perspective, the issue is EEZ delimitation in the Levantine basin, especially around Israel. As Lebanon and Israel have no diplomatic relations, a third country, Cyprus, intervened regarding the definitions of these borders. Italy's Eni, France's Total, and Russia's Novatek have started working on the disputed zone, citing permits issued by Lebanon. This created a dispute with Israel, and the United States tried to intervene by facilitating talks. While talks were expected to start in July 2019, that month an Israeli naval vessel entered the disputed waters, the Lebanese government officially blamed the act as provocation, and talks never commenced.

This analysis of where East Med gas stands in concerned countries' decision-making criteria aimed to explore how much is beyond gas market dynamics for countries. Ensuring energy autonomy is a way to reach the political autonomy that Lebanon has sought for half a century. Integrating the gas-production decision represented an achievement in the fight for existence in Northern Cyprus, and is similar to how driving the East Med gas market epitomized Turkey's desire to counterbalance Russia. Nevertheless, gas is an economic commodity with a clear

31 "United Nations Convention on the Law of the Sea (UNCLOS)," United Nations, 1982, https://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf.

32 Çagatay Erciyes, "Maritime Issues Maritime Boundary Delimitation, Turkey's off in the Eastern Mediterranean," Republic of Turkey Ministry of Foreign Affairs, May 10, 2019, http://www.mfa.gov.tr/site_media/html/maritime-delimitation-10-5-2019-presentation.pdf.

33 Bassam Fattouh and Laura El-Katiri, "Lebanon: The Next Eastern Mediterranean Gas Producer?" German Marshall Fund of the United States, February 12, 2015, <http://www.gmfus.org/publications/lebanon-next-eastern-mediterranean-gas-producer>.

global market value that could invite companies to reassess how much they invest in it. Likewise, IFIs should consider balancing economic gains of the project in the frame of the global energy market—including the political conflicts they risk encountering if they do not include specific measures to overcome such conflicts, and to enhance the existing situation.

The context of the global gas market

“[For the energy market] 2019 was a century ago,” noted Fatih Birol, executive director of the International Energy Agency (IEA), during a May 2020 discussion at Columbia University on the “World Energy Investment 2020” report, noting that—while worldwide capital expenditures related to energy were originally expected to reach the highest uptick since 2014, at 2 percent—the COVID-19 pandemic diminished these expectations.³⁴ Now, one of the largest declines in energy investment is foreseen for 2020. The size of investment reduction is evaluated as one fifth compared with 2019—which is equivalent to almost \$400 billion.³⁵

Even though 2019 was the record year for new LNG project announcements and final investment decisions, the IEA’s insight on revisions shows a brutal decline in the oil and gas sector, and suggests the estimated fall in investment in 2020 will be about one third. New project announcements, initially anticipated for 2020, are being postponed, and no final investment decisions for large energy projects are projected. While the oil market is global, the natural-gas market has generally taken on a regional dimension, as export was done mainly via pipeline. Recently, however, with the shale revolution and development of an LNG market, the gas market has also started showing tendencies similar to those of a global commodity, such as price convergence.³⁶ Therefore, some main investors in East Med gas—such as Exxon, Eni, and Total—immediately announcing they are postponing their actions until 2021.

In this problematic global context, it is important to note that developments in the Eastern Mediterranean may represent a nearly revolutionary amount of resources in a declining market—to provide some sense of scale, the simplest description made so far regarding Eastern Mediterranean deposits compares these discoveries with

the amount of resources currently exploited by Norway, and the possible recoverable resources may be similar to the entire amount of resources discovered in the North Sea.³⁷

How external factors such as global gas markets and prices will move ahead in the post-COVID-19 arena—and how global LNG suppliers and consumers will react to the penetration of East Med gas into the market—will shape export hopes in the region and define where the Eastern Mediterranean stands in the market.³⁸ Analysis of the supply-demand balance and the importance of East Med gas aims to add an input to the new methodology for assessing projects’ impact on stability and regional integration, and for proactive mediation actions that this assessment can incorporate. This suggestion may invite IFIs to require companies to rate the economic impact of East Med gas in the global energy market, including the negative political impact that it risks creating as part of the overall decision-making framework—hence the need for such criteria to be explicitly (rather than implicitly) included in decision matrices. IFIs that do not yet have this competence can turn the market’s recovery time to their advantage by beginning to acquire that competence through active participation, discussions, or partnerships with competent think tanks.

Demand perspective

The global gas market, prior to March 2020, could have seen a total increase in gas consumption. The United States and China were the two main contributors to this increase, but neither of these players is interested in consuming East Med gas, and now both US and Chinese gas-consumption trends have started slowing down. Moreover, East Med gas is not the only new supply discovered in the world in the last decade—other reserves have been revealed in Mozambique, Tanzania, Senegal, and Mauritania. Additionally, the price of LNG from the United States is quickly going down, according to the US Energy Information Administration.³⁹ Indeed, from the perspective of consumers outside the region, deciding to import East Med gas will be done depending mainly on cost factors, assuming that extraction and exporting are feasible in secure conditions. East Med gas is not a game changer in the global gas market. In these circumstances, the most likely

34 “World Energy Investment 2020.”

35 Ibid.

36 “Gas 2019, Analysis and Forecast to 2024,” International Energy Agency, 2019, <https://webstore.iea.org/download/summary/2795>.

37 Sohbet Karbuz, “Dogu Akdeniz’de Ne Kadar Dogal Gaz Var?” Enerji Politikaları Arastirma Merkezi, July 2019, <https://www.enerjiportali.com/wp-content/uploads/2019/07/Doğu-Akdenizde-Ne-Kadar-Doğalgaz-Var.pdf>.

38 Charles Ellinas, “East Med Gas: The Impact of Global Gas Markets and Prices,” Istituto Affari Internazionali (IAI), February 16, 2019, <https://www.iai.it/en/pubblicazioni/east-med-gas-impact-global-gas-markets-and-prices>.

39 “The Price of Liquefied US Natural Gas Exports,” US Energy Information Administration, accessed December 22, 2019, <https://www.eia.gov/dnav/ng/hist/n9133us3m.htm>.

major clients for the East Med gas would be Turkey and the EU—namely Spain, Italy, and France. Other minor clients are likely to include Lebanon and Jordan.

The European Commission’s 2017 “Report on the State of the Energy Union” alludes to the diversification potential that possible Eastern Mediterranean gas supplies offer to the EU, and their compatibility with the EU’s “Energy Union” Strategy. The commission notes, “The Eastern Mediterranean is also a promising source of gas supply for the European Union. This increases the diversification opportunities and reduces import dependency on a single supplier, a key objective of the Energy Union.”⁴⁰

However, taking into account the LNG market’s fluctuations, some economic and technical controversies emerge. First, it is important to underline that the EU is not a decisive client of the global LNG market. LNG currently accounts for only 12 percent of EU gas imports and, overall, European countries’ average utilization of terminals remains below capacity—24 percent for Spain, 30 percent for France, and 14 percent for the UK.⁴¹ European gas consumption is expected to remain stable in next twenty years, while domestic production will drop at an average rate of 3.5 percent per year. This drop will be primarily driven by the phase-out of the Dutch Groningen gas field and declining production in the North Sea. Most likely, the European Green Deal (EGD)—which aims to prepare the EU economy for climate neutrality by 2050 and the 7–10 percent economic downturn expected following the COVID-19 crisis—will downsize this expectation.⁴²

Europe’s natural-gas imports are mostly built on pipelines. The main LNG-receiving countries in the EU are France, Belgium, Italy, Greece, Malta, Lithuania, the Netherlands, Spain, Poland, Portugal, and the UK. With the construction of new LNG terminals on the Iberian Peninsula, Europe’s total regasification capacity will reach 230 bcm, though the IEA continues to issue warnings related to the expiration of Europe’s current LNG imports. If most of these expiring contracts are not renewed, Europe’s LNG-import volumes will drop by around 17 bcm from 2010 to 2022.⁴³ Until these

contracts are renewed, in the specific case of East Med gas, only four EU member states (France, Spain, Italy, and Croatia) would have the potential to inject gas via LNG terminals. As one cannot speculate on which LNG-import contracts will be renewed, this report will review only the uncertainty in current contracts.⁴⁴

Spain is the fifth-biggest gas market in the EU and has been Europe’s top LNG importer for decades, accounting for 39 percent of the total LNG regasification capacity in the EU—and has started reducing its LNG import volumes. Spanish net LNG imports declined by 12 percent in the first half of 2018 compared to 2017.⁴⁵ And, Spain’s interconnection capacities represent only 16 percent of the average gas demand, one of the lowest ratios in Europe. In contrast, the interconnection capacity is 138 percent for France and 290 percent in Germany. In other words, Spain is an energy island in Europe, without any interconnections with other European countries, which means that exporting to Europe via Spanish LNG terminals is not a realistic scenario.

The Italian LNG market, like the rest of the EU LNG markets, is characterized by a relative abundance of unutilized available regasification capacity. This is because of the significant drop in the demand for gas in Italy and Europe compared to the pre-crisis years. In last ten years, Italy made both regulatory changes and access to cross-border interconnection infrastructures easier and more flexible, which means one may consider Italy, though not a main consuming destination, a reliable bridge to the rest of Europe, if Europe’s LNG demand grows.⁴⁶ In July 2019, EU antitrust regulators approved Croatia’s LNG terminal project at Krk Island, considered a possible contribution to the target of reducing reliance on energy imports from Russia. Today, the project is still waiting for investment.⁴⁷ The post-COVID low prices at the EU gas hubs will certainly affect their attractiveness for East Med gas suppliers.⁴⁸

Outside of the sphere of EU member states, an interesting final-destination European market might be Turkey, because of its growing energy demand and also the total

40 “Second Report on the State of the Energy Union, COM(2017)0053,” European Commission Directorate-General for Energy, February 1, 2017, https://ec.europa.eu/commission/second-report-state-energy-union_en.

41 “How to Foster LNG Markets in Europe, Liquefied Natural Gas Work Stream of Gas Working Group,” Council of European Energy Regulators, July 24, 2019, <https://www.ceer.eu/documents/104400/-/-/57d62db2-db0a-e611-2a49-85703d1d54d6>. “Follow-up Study to the LNG and Storage Strategy,” European Commission Directorate-General for Energy, 2017, https://ec.europa.eu/energy/sites/ener/files/documents/follow_up_study_lng_storage_final_01.pdf.

42 “European Union 2020, Energy Policy Review,” International Energy Agency, June 2020, <https://www.iea.org/reports/european-union-2020>.

43 “LNG Market Trends and Their Implications, Structures, Drivers and Developments of Major Asian Importers,” International Energy Agency and Korea Energy Economics Institute, June 2019, https://webstore.iea.org/download/direct/2809?fileName=LNG_Market_Trends_and_Their_Implications.pdf.

44 Ibid.

45 “How to Foster LNG Markets in Europe, Liquefied Natural Gas Work Stream of Gas Working Group.”

46 Ibid.

47 “EU Okays Croatia’s State Aid of Krk LNG Terminal,” Reuters, July 31, 2019, <https://www.reuters.com/article/us-eu-croatia-lng/eu-okays-croatias-state-aid-of-krk-lng-terminal-idUSKCN1UQ13E>.

48 “European Union 2020, Energy Policy Review.”

share of LNG in the Turkish gas market. In 2018, Turkey reshaped its energy-import architecture, and became Europe's second-largest LNG importer. As discussed earlier, LNG moved to 28 percent in 2018; this is without adding more Russian gas to its supply.

Turkey's pivotal movements were expanding the LNG import capacity of the Aliaga and Marmara terminals, and investing in three floating storage and regasification units. However, the option of purchasing Eastern Mediterranean gas for Turkey's own consumption has started losing its original attractiveness, thanks to the inauguration of TANAP and additional LNG from different sources that has already helped start diversifying supply. Turkey is also aiming to become an energy hub and to transit East Med gas to Europe. But, for this scenario, Turkey needs to respond to the prerequisites stated in the IEA Turkey energy review of 2016 for establishment of a gas-trading platform with an independent system operator, where the trade is separated from transmission. In addition, it needs to build up an independent system operator that can foster security of supply and will facilitate transparent gas trade, the availability of short-term gas contracts, and market-based balancing capacity.⁴⁹ Though there is still no in-depth analysis of the COVID-19 pandemic's impact on the Turkish energy market, a drop in investment and slowdown in demand seem highly likely.

In the meantime, even if they have more limited capacity, Lebanon and Jordan also have potential to become markets for East Med gas. From the Lebanese perspective, switching the electricity economy from heavy fuel oil to gas requires costly actions that are not considered realistic in the short term.

Jordan imports most of the oil and gas it demands. In February 2011, when gas supplies from Egypt—which represented 80 percent of imports—were interrupted, Jordanian electricity-generation plants switched to oil and diesel, which are priced about four times higher than natural gas. In addition to this, the country's energy consumption is increasing consistently by 6-7 percent per year, due to the refugee crisis and a weak energy-efficiency policy. Jordan would be an immediate buyer of East Med gas, after a strong public communication campaign; consider that the Jordan-Israel gas deal, signed in 2016, still struggles through despite public protests a few months before its start.⁵⁰ The importance of LNG will grow in the near future, helping Europe diversify its sources of gas as a transition fuel toward full decarbonization, but there is a

need to develop solutions for the energy sector's security issues, as well as for the development of an environmental disaster fund—prime issues for discussion in inclusive regional forums.

Supplier perspective

LNG trade is expanding, and moving from local bilateral markets to regional/global markets. According to the 2019 joint study of the International Energy Agency and the Korean Energy Economics Institute, this is mainly due to diversification on the supply side—besides traditional suppliers such as United States and Australia, new suppliers are also now offering new liquefaction projects.⁵¹

Qatar has been the leading source of global LNG exports for the last twelve consecutive years, and Qatar Petroleum's 2018 corporate strategy states a clear ambition to maintain its role as a "leading energy provider," with a target to expand export capacity from seventy-seven million tons per year to one hundred million tons per year, increasing the North Dome field's production. Qatar Petroleum is also a player in the Mediterranean—along with ExxonMobil, it made a significant natural-gas discovery on the Glaucus-1 earlier this year, which offers another potentially beneficial solution.

Russia, after a long silence regarding the US LNG threat, has started shifting to a more aggressive strategy. Russia has started the process of getting two LNG plants into operation: Gazprom's Sakhalin-2 and Novatek's Yamal LNG. In September 2019, Russia's largest LNG project also received a green light. Located on the Gydan Peninsula, the Arctic LNG 2 project will have three liquefaction plants with a total production capacity of 19.8 million tons per year, supplying one fourth of Qatar's entire export capacity.

In this context, if East Med gas became a potential source for Europe, which aims to diversify its gas supplies and reduce its dependency on Russian gas, Moscow will be obliged to respond. Russia's response so far has been to increase its influence in the Eastern Mediterranean, through Soyuzneftgas' agreement in Syria's EEZ in 2014 and Novatek's licenses regarding two blocks in Lebanon's EEZ, one of which is in a disputed zone with Israel. In addition to that, if and when the Kremlin considers East Med gas to have become a threat to its domination, it can also play the price-manipulation game in the market by selling below the market price to LNG-export projects, maintaining the competitiveness of Russian LNG on the global market

49 Olgu Okumus, "Gas Trade: Stand-Alone Win-Win for US-Turkey Relations," *Al-Monitor*, October 15, 2019, <https://www.al-monitor.com/pulse/originals/2019/10/turkey-united-states-gas-trade-stand-alone-win-win.html>.

50 Al-Junaidi, "Jordan MPs Call for Cancelling Gas Deal with Israel.," Mohammad Ghazal, "Hundreds Gather Downtown to Protest Jordan-Israel Gas Deal," *Jordan Times*, March 23, 2019, <https://www.jordantimes.com/news/local/hundreds-gather-downtown-protest-jordan-israel-gas-deal>.

51 "LNG Market Trends and Their Implications, Structures, Drivers and Developments of Major Asian Importers."

and conforming to President Vladimir Putin's executive order to Gazprom in December 2017.⁵²

According to the IEA, in its 2019 "United States Energy Review," US gas production grew 40 percent in the last ten years, and reached 760.4 bcm in 2018, thanks to the shale revolution in the energy market and Washington's "energy dominance" approach. The approach is built on the promotion of US oil and gas exports, the lowering of dependence on imported oil, and the encouragement of exports to stimulate the US economy and political influence overseas. This trend is also supported by recent foreign policy moves, such as sanctions on Iran and Venezuela, or presidential sanction considerations regarding companies engaged in Russia's Nord Stream 2.

From a pure energy-market perspective, like Russia, US shale-gas companies may also choose to limit penetration of Mediterranean gas in the market by offering much more competitive prices to potential clients, such as Turkey. However, from a political perspective for the US government, East Med gas stands at the intersection of European energy security and transatlantic cooperation. It, therefore, carries international policy concerns, which are comparable to the ones that the United States had during the development of the oil and gas pipeline routes in the late 1990s between Azerbaijan, Georgia, and Turkey, as noted by Ambassador Richard Morningstar, former special envoy of the US secretary of state for Eurasian energy.⁵³ In addition, US-based multinational ExxonMobil's presence on the coast of Cyprus may also add commercial interests to this relationship, and perhaps modulate the focus of US interests. However, independently, the US government (like that of the EU) remains keenly concerned about stability in the Eastern Mediterranean, as well as ensuring Israel's security, which definitively makes it an active actor in the

resolution of political obstacles and promotion of creative solutions.

Australia, a major player in the LNG market, continues increasing its liquefaction capacity; the target is to reach 120 bcm by 2019. However, Australian LNG's destination remains Asian economies, e.g., Japan, China, and South Korea. This makes Australia not only an influential player, but a strong provider shaping the market.

Last, but not least, it is important to underline that, in the overall realm of LNG affairs, the trend is going toward a balancing out of supply and demand, and maybe even a tightness in demand. With the fall in oil prices, LNG prices may also remain very competitive, putting medium-sized production like the East Med's in a precarious position compared to global giants. To this analysis one can also add a discussion on how much the increasingly competitive cost of renewable energy (wind, solar, etc.) will influence the development of East Med gas.

Depending on market conditions, other suppliers can replace Mediterranean gas easily and quickly. Unfortunately, all these are the dynamics of the global market, on which East Med countries can barely have an impact if they just deal with it as single, small-sized producers. Joining forces has already been revealed as the most reliable strategy for Mediterranean countries in the fields of energy regulation and electricity, where strong cooperation emerged since early 2000s. In addition, two recent regional dialogue platforms have emerged in two distinct and complementary dynamics, which are the only available opportunities for mutual understanding, and for incubating the integration projects one will need if the IFIs establish the suggested criteria for improving existing integration conditions and stability.

52 Ibid.

53 Richard L. Morningstar, et al., *European Energy Security and Transatlantic Cooperation*, Atlantic Council, June 2019, https://www.atlanticcouncil.org/images/publications/European_Energy_Security_and_Transatlantic_Cooperation.pdf.

Multilateral dialogue platforms

An overview of Eastern Mediterranean gas developments shows how, except for Zohr, most of those early discoveries were made by junior private companies—Noble (Aphrodite, Tamar, Leviathan) and Delek (Tamar, Leviathan)—with political support always coming from governments.

The region is now entering the second stage of this development, with the penetration of energy giants. As each Eastern Mediterranean country's individual gas offer lacks decisive negotiation power, this change in the market makes cooperation and integration between governments more necessary than ever. If countries look to better defend their national interests vis-à-vis international giants' search for profits and turn gas into an asset for their political and economic stability, they can realize the full gas potential of the Eastern Mediterranean. If the root causes of the current gap cannot be solved—especially in the absence of bilateral relations among countries involved in the process—multilateral-dialogue organizations would offer ideal platforms for solutions in pursuit of the greatest good for the greatest number. Regional-integration entities such as the Union for the Mediterranean and the new forum envisioned by the Eastern Mediterranean Gas Platform Forum meeting could give strong negotiation power to Mediterranean shore countries at different levels, and with different assertions.⁵⁴ However, regional integration may not be necessary if the objective is only exploring energy sources at competitive prices with high interest rates for oil companies and their shareholders, as is the case in Nigeria or Iraq—this solution involves also assuming the challenges that those countries are going through. This returns to the suggestion of the IFIs as game-setting players, who will incorporate the concept of regional integration and stability in the project-feasibility stage by requesting that energy companies pursue proactive solutions to counterbalance risks that their investments can encounter vis-à-vis existing stability and integration dynamics. Only once the concept becomes mandatory for investors will they take seriously the multitude of integration projects that emerge from available multi-dialogue platforms, in order to receive more effective responses to their inquiries.

The Union for the Mediterranean (UfM) platforms

The Union for the Mediterranean (UfM) is a unique intergovernmental organization, established in 2008 and gathering forty-three member states, including all EU member states and other Mediterranean shore countries (Mauritania, Morocco, Algeria, Tunisia, Egypt, Turkey, Israel, Palestine, Jordan, and Lebanon). The founding document of the institution, the Joint Declaration of the Paris Summit for the Mediterranean, signed in July 2008 by the heads of state of the forty-three countries, states that the “Union for the Mediterranean aims to build on consensus to pursue cooperation, political and socio-economic reform and modernization on the basis of equality and mutual respect for each other's sovereignty.”⁵⁵ Heads of state who signed this statement recognizing each other's sovereignty were really vanguards, as their signatures opened the path to further resolutions, getting around the absence of bilateral relations between some of the signatory countries.

UfM offered all Mediterranean shore countries a consensus-driven umbrella under which interests of all member states are equally represented, which allowed the UfM ministers to go further in their joint ambition and establish, in December 2016, high-level platforms to enhance regional dialogue on energy policy and facilitate partnerships between the forty-three member states, as well as with the relevant energy stakeholders in the region. The three UfM Energy Platforms—namely, the UfM Regional Electricity Market Platform, the UfM Renewable Energy and Energy Efficiency Platform, and UfM Gas Platform—provide political frameworks, technical background information, and institutional support for dialogues on relevant issues.

The East Med gas issues are under the mandate of the UfM Gas Platform, which receives both secretariat and technical assistance support from the Observatoire Méditerranéen de l'Énergie, (OME), a well-known association of oil and gas companies. Thanks to this system, established with the financial support of the EU, the UfM Gas Platform allows first steps toward the development of a Euro-Mediterranean gas market to promote security, transparency, and predictability

54 Tagliapietra, “Energy: A Shaping Factor for Regional Stability in the Eastern Mediterranean?”; Tareq Baconi, “Pipelines and Pipedreams: How the EU Can Support a Regional Gas Hub in the Eastern Mediterranean,” European Council on Foreign Relations, April 2017, https://www.ecfr.eu/publications/summary/pipelines_and_pipedreams_how_the_eu_can_support_a_regional_gas_hub_in_7276.

55 “Joint Declaration of the Paris Summit for the Mediterranean.”



The ministers in charge of energy from the 43 members of the Union for the Mediterranean (UfM) agreed to step up regional cooperation on energy in order to deliver a secure, affordable and sustainable energy supply, a major factor for stability and shared prosperity in the Mediterranean region, Rome, December 1st, 2016 at <https://ufmsecretariat.org/ufm-ministers-agree-on-new-dynamics-for-an-enhanced-regional-energy-framework/>.

of both demand and supply. The governing principles of the platform are to correctly and fairly balance the interests of both producing and consuming countries, and to provide a basis for long-term and sustainable development of the reserves in the region.

Additionally, the UfM Gas Platform works in close cooperation with the Association of Mediterranean Energy Regulators (MedReg) and Mediterranean Transmission System Operators (Med-TSO). Also, IFIs are members of the platforms themselves, further reflecting their involvement.

Med-TSO is the Association of the Mediterranean Transmission System Operators (TSOs) for electricity, operating the high-voltage transmission networks of twenty voluntary members from eighteen countries such as Albania, Algeria, Cyprus, Egypt, France, Greece, Israel, Italy, Jordan, Libya, Morocco, Montenegro, Palestine, Portugal, Spain, Slovenia, Tunisia, and Turkey. Med-TSO works within the technical committees and working groups on planning, operations, electricity exchanges, and regulation involving member countries' electricity systems. Since 2014, Med-TSO has been working with the support of the European Commission on promoting the progressive integration of power systems and cross-border electricity exchanges among the countries on two shores of the Mediterranean. Med-TSO methodology is based on coordinating national high-voltage (HV) electricity-grid development plans and the harmonization of access/operational rules.

The cooperation of Med-TSO members has delivered the Mediterranean Master Plan of Electricity Interconnections, a long-term HV Electricity Network Development Plan with the time horizon 2030. In this plan, members agreed on common coordinated planning methodology, as well as procedures for cost-benefit analysis (CBA) methodology.⁵⁶ The progress that Med-TSO members have been able to achieve in the electricity sector—in terms of enhancing electricity interconnectors, as well as regulatory harmonization—shows how much multilateral dialogue platforms can achieve when they focus on the advantages of integration, rather than the lack of bilateral political tensions.

MedReg (established in 2007) gives another example of fruitful multilateral dialogue, as it has promoted a stable, compatible, transparent, and non-discriminatory regulatory framework with a view to establishing a sustainable, secure, and competitive Mediterranean energy market. MedReg has twenty-seven members, including the regulatory agencies and ministerial authorities of Albania, Algeria, Bosnia and Herzegovina, Croatia, Cyprus, Egypt, France, Greece, Israel, Italy, Jordan, Lebanon, Libya, Malta, Montenegro, Morocco, Palestine, Slovenia, Spain, Tunisia, and Turkey.

MedReg's working group on gas developed guidelines for best practices and recommendations for the development of an integrated, competitive, secure, and effective gas market in the region, and proposes scenarios for the

⁵⁶ "Mediterranean Project 2015-2018 Report," Mediterranean Transmission System Operators, 2015–2018, https://med-tso.com/MED-TSO_Mediterranean_Project_2015-2018_Final_Report.pdf.

convergence of regulatory measures among Mediterranean countries to promote gas-market integration, third-party access, and new mechanisms for capacity allocation.

In 2017, MedReg and Med-TSO jointly prepared criteria for cross-border cost-allocation (CBCA) mechanisms to be applied to selected pilot projects in the region. The CBCA criteria aim to support building a realistic picture of investment challenges, taking into account technical, economic, commercial, financing, and regulation aspects. In the field of gas, in synergy with MedReg and Med-TSO, there are ongoing efforts to establish the East Mediterranean Gas Transmission Network Operators (MEDGIO), which would offer another comprehensive dialogue platform for the region.

Since their establishment, UfM energy platforms—including all those mentioned above—have received some criticism for not actively and comprehensively supporting the establishment of a regional hub. Nevertheless, they stand as unique platforms englobing all stakeholders and countries, giving all actors equal rights in a consensus-driven forum.

Eastern Mediterranean Gas Forum (EMGF)

In January 2019, the energy ministers of Cyprus, Egypt, Greece, Israel, Italy, Jordan, and Palestine announced the EMGF with the compulsory, yet ambitious, objective of promoting regional energy cooperation by establishing a regional gas market, optimizing resource development, and ensuring the efficient use of existing and new infrastructure with competitive pricing and improved trade relations.

The EMGF's methodology is very similar to the UfM Gas Platform, as it also gives priority to strengthening cooperation by creating systematic dialogue, formulating common regional policies on natural gas, and deepening awareness of the interdependence and benefits that can be gained from cooperation and dialogue among members.

Moreover, the EMGF aims to promote cooperation between parties of production and consumption, as well as transit, in the region, and to develop infrastructures to

accommodate current and future discoveries.⁵⁷ While, the UfM Gas Platform and EMGF share comparable objectives, they are different when it comes to the level of governmental commitment, and the institutions' constituency and maturity. (The founding documents of the EMGF were signed only by the energy ministers of six countries less than a year ago.)

The first meeting of the EMGF took place in Cairo six months after the forum was declared. In addition to the founding countries' energy ministers, it was attended by the US secretary of energy (as a guest of honor), the EU director general for energy, a representative of France, and a representative of the World Bank. This large scale and high level of attendance show the strong political support that this level of ambition would certainly need in further stages of the economic integration and normalization of relations. Conversely, after three years of commitment, the UfM Gas Platform has not reached yet this level of trans-Atlantic support. To achieve its ambitions, the EMGF may need to take steps to create an institutional identity including a secretariat and technical support, which may require cooperation with regional stakeholders the way UfM platforms do, alongside a strategy to involve non-member Mediterranean shore states.

Last, but not least, none of these platforms have been dealing with security and environmental concerns. To increase member countries' negotiation leverage with energy giants, developer countries will also need to ensure the security of energy installations in the East Med gas-development areas, especially those located far offshore. This is another reason why development of integration tools and transborder intelligence collaboration to overcome terrorism risks are necessary.

Considering the limited geographic space that is the Mediterranean basin, environmental concerns are naturally shared by neighboring countries, whether or not they have authority over gas-production decisions. From this perspective, with respect to the above-discussed regional integration entities, an environmental and security mandate must be added.

57 Al-Masry Al-Youm, "East Mediterranean Gas Forum to Be Established in Cairo," *Egypt Independent*, January 14, 2019, <https://egyptindependent.com/east-mediterranean-gas-forum-to-be-established-in-cairo/>.

Conclusion and recommendations

East Med gas is an economically feasible and politically difficult commodity. In the last stage, companies' pressure for return on their gas investments needs to be replaced by governments' overall calculations about whether, and how, to buy or sell gas, with respect to the European market. Thus, political considerations need to trump economic ones. This needs to be seen as an enhancement of integration possibilities, rather than a hinderance, because the region has already experienced two big conflicts in Libya and Syria, along with decades-long instability in Iraq, fueled by energy products' market value.

From a political perspective (i.e., which countries of the Mediterranean region will win in this process, and how much they will earn), one must remember that a chain is only as strong as its weakest link. To develop joint strategies, members must explore the region's potential for cooperation, rather than conflict.

To make this wish possible, this report suggests mobilizing the power of international development banks, which will have the final say on the project developed by energy giants, as they will all seek for funding from IFIs. This is because countries are the shareholders of IFIs such as the World Bank, EBRD, EIB, and IsDB; by definition, IRIs are entitled to seek the interests of their shareholders. IFIs can include regional integration and political stability as criteria in energy-project assessments, and can refuse funding to projects that do not improve the stability of the hosting country or countries, or the region of which they are part. Funded projects should definitively enhance the social, political, and economic integration of the beneficiary country and its neighbors.

This approach requires a comprehensive work of mutual understanding. Investors in each Eastern Mediterranean country need to invest in understanding where East Med gas stands with respect to other countries' political and economic contexts, and where the issue of commercialization of East Med gas stands in the world energy market. This requires a long dialogue process that cannot be reduced to mere economic-investment terms, which bring up the role of established multilateral-dialogue platforms, in which all countries involved in the process had equal power and recognized each other's sovereignty, as under the Paris Declaration of 2008.

However, in the current circumstances, Southern and Eastern Mediterranean countries find themselves driven by the pressure of exploiting gas fields before dealing

with the security, social, and environmental threats of these developments. Israel, Cyprus, and Egypt own gas developments that receive international giants' attention. Israel's government could take a much more strategic foreign policy gain from exploiting gas fields, if it considered the region as an integrated actor instead of focusing on individual countries. For Cyprus, gas is above all a massive economic hope, but can also turn into a threat to the status quo if the country does not take proactive measures against the negative consequences of hydrocarbon economies. Comprehensive and inclusive policymaking is a must for the government of Cyprus—not only with Turkish Cypriots, but also with its own civil society.

“In the context of the legacy of unresolved political concerns that establish red lines, Turkey tackles the issue from different angles, but maintaining its balancing act always appears to have a limit—one which Turkey needs to better express to its NATO allies.”

Since 2011, Egypt has gone through energy disruptions and shortages because of security vulnerabilities originating from terrorists. Zohr gas-field discoveries offer a hope to reverse the curse of energy disruption, and to bring back gas exports for Egypt, if developing cooperation strengthens this leg.

In the context of the legacy of unresolved political concerns that establish red lines, Turkey tackles the issue from different angles, but maintaining its balancing act always appears to have a limit—one which Turkey needs to better express to its NATO allies. This may also help the the northern part of Cyprus administered by Turkish Cypriots, as it can perhaps use the issue as leverage for resolution of the Cyprus conflict. For Lebanon, the uncertainty about resources creates more question than solutions. Last, but not least, as political concerns crystalized on the delimitation of Mediterranean Sea—and the fact that not all

involved countries have signed UNCLOS—comprehensive regional cooperation or energy conflict mediation have become the only solution unless all countries develop their own bilateral agreements, many of which will be (and are) in conflict with each other.

In addition, taking into consideration the global energy market and LNG price dynamics, medium-sized productions in the East Med will likely face a struggle in a competitive international market. To overcome this, they need to make the difference in their offer one of quality and values. If they develop a joint strategy to mitigate environmental risks with tools such as a regional environmental-disaster fund, they can also differentiate themselves as responsible producers. This can only be done through comprehensive multilateral platforms supported at high levels, especially as some countries in the region do not have bilateral

dialogue. Yet, countries also need to understand the role existing issues, red lines, and strategic priorities play in this process.

This paper aims to contribute to this mutual understanding of exploring methodologies to enhance regional integration as the most sustainable conflict-prevention policy. It suggests including this effort in the feasibility study of major energy-investment projects. Moreover, it proposes making it mandatory for investors to develop proactive measures in order to improve regional integration and stability where the project is taking place—in the same way they already do for social and environmental assessment. In the meantime, if there is one recommendation to make, it is to avoid all discourse that can be considered menacing, and instead focus on a sharing and solution-seeking process grounded in equality.

About the Author



Dr. Olgu Okumuş is an independent consultant in the Middle East and North Africa, providing insights and support on policy and finance strategies in the fields of energy and climate change for supranational, national, and local authorities. She is currently serving as a senior-level expert for European Commission-funded initiatives, alongside international development agencies.

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