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Fishing for Gas and More in Cypriot Waters

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Executive Summary

Cyprus has been hit hard by economic misfortunes recently (accidental destruction of its main power station in 2011, contagion from the Eurozone crisis in 2012), but now has a big opportunity to develop significant offshore gas resources. However, its chances of proceeding with this project are currently prejudiced by political tensions and uncertainties surrounding its Exclusive Economic Zone (EEZ). This is because Turkey is sharply contesting the right of Cyprus to go ahead, albeit for reasons that seem to be more connected to the stalled peace process for reunifying the island than matters of international maritime law, even if the latter are themselves complex and open to endless legal argument. This policy brief argues that none of the interested parties – the two Cypriot communities, Turkey and the European Union – benefit from the status quo and that, on the contrary, all forego significant benefits that would come from a resolution of the conflict, development of the new gas resources, and improved Turkish-EU relations. While the peace process seems stuck, objectively there are opportunities for a rapid and substantial interim settlement, with maybe a less heavy agenda than that of the Annan Plan and the subsequent fruitless negotiations over a comprehensive agreement. For Turkey there are high stakes involved for its foreign policy: Turkey seems to be getting itself into a remarkably awkward diplomatic position in relation to the offshore Cypriot gas, in apparent opposition to a coincidence of interests of the EU, US, Israel, Cyprus and Russia, all of which support Cyprus's rights to its EEZ. The unresolved Cyprus question is itself quite benign compared to the grave problems of strategic security to the east of Turkey (Syria, Iran, Iraq, Israel-Palestine, Afghanistan). Most disturbing therefore is the current escalation of tensions over Cypriot gas, involving threats of realpolitik flavour and even of military confrontation between Turkey, as NATO member and EU applicant, and Cyprus as EU member state whose virtual allies now include Israel and Russia. Political leaders responsible for the affairs of Cyprus should engineer together a paradigm shift back into the safe waters of conflict resolution, reconciliation and international law.

Prologue: The leader from the island of Kypros goes to Delphi and asks: What can be done about the dreadful blows that have hit our land? The Oracle replies: Fear not, the Gods will bring to you a great gift, as and when you and your neighbours are able to make peace together.

The economy of Cyprus has been hit by two very serious and successive blows: the accidental explosion of a military ammunition depot in July 2011, which knocked out the island's nearby main electricity generating power station; and the Greek part of the Eurozone crisis, which has ominous implications for Greek Cypriot banks. Cyprus has now requested a Eurozone bailout, becoming a further victim of the seemingly uncontrollable financial contagion from Greece, Ireland, Portugal, Spain and Italy; and it has also requested a fresh loan from Russia.

Meanwhile the UN-sponsored peace talks are still manifestly stuck. These negotiations were restarted in September 2008, four years after the Greek Cypriots' rejection by referendum of the Annan Plan. The renewed negotiations have been continuing now for a further four years, and are nowhere near a resolution point, with the UN openly discussing whether there is any point in its continuing to invest in the process.

The beginning of the Cypriot Presidency of the EU's Council of Ministers in July 2012 sees Cypriot-Turkish relations descending to a new low point. Turkey announced suspension of contacts with the EU Presidency during the six months of Cyprus's tenure, although it remains ready to work with the Commission. However this political statement does not change much, if anything, at the operational level, since Turkey's accession negotiations are stalled in any case, for reasons that go way beyond the Cyprus problem, with France among the member states that most explicitly oppose Turkish accession.[1]

As if all this were not bad enough, Cypriot-Turkish relations have been further aggravated by escalating tensions over the decision by Cyprus to begin drilling for offshore gas at the south-east extremity of its maritime Exclusive Economic Zone (EEZ). The find is on the border with Israel's EEZ and not far from that of Egypt, and thus at its most distant possible point from Turkey (see annex I).

The gas finds could be of significant benefit to the Cypriot economy in the medium and long run. Since financial markets, and long-term government bond markets in particular, are reputed to take rational long-term views, Cyprus has an urgent interest in upgrading this investment prospect into a credible and tangible reality.

So then, why not make of this the turning point to trigger a transformation of this grimmest of economic and political situations for Cyprus, as for Cypriot-Turkish and EU-Turkish relations? Could today's multiple rock bottom point be transformed into the moment when political leaders see the need and opportunity to reverse the

* Associate Senior Research Fellow, CEPS. Thanks for helpful comments and information to Senem Duzgit Aydin, Hakim Darbouche, Anastasios Giamourides, Steven Hodgson, Michael Leigh, Nathalie Tocci, Alper Riza and Georg Ziegler , none of whom are of course responsible for views here expressed

1 Although this may soften under François Hollande's presidency. See Dimitar Bechev's commentary in this series.

course of the region's history?[2] Cyprus has made an offer to share future gas revenues with Northern Cyprus, and this could be a starting point.

This Policy Brief starts with a summary of the economics of the recent gas offshore finds in Cypriot waters, what international law has to say on maritime boundaries, what Turkey says on its own maritime boundary claims and those of Greek and Turkish Cyprus, and on the options for transporting the gas to markets. It then goes on to review the present stalled state of the Cyprus peace negotiations, and why the gas finds point to the case now for a Plan B to give these fresh momentum. Finally there is a summary of how the cost-benefit calculus looks for all parties for a combined strategy to resolve at last the Cyprus conflict at least on an interim basis alongside heavy investments to exploit the gas discoveries.

The windfall gain of offshore gas

On 28 December 2011, Republic of Cyprus President Christofias declared that the offshore find of gas in Block 12 by the Noble Energy company was estimated to amount to 7 trillion cubic feet (tcf, within a range of 5-8 tcf) in volume, or 198 billion cubic metres (bcm). Industry sources consider that this estimate could well turn out to be conservative, especially considering the interest shown by international oil companies in Cyprus's second upstream licensing round in May. Cyprus's own gas consumption is about 1 bcm per annum. At a notional low price estimate of $200 dollars per 1000 cubic metres, the value of the find would be $39.6 billion (€31 billion). This compares with the current GDP of Cyprus of €18 billion, Cypriot public debt of €13.8 billion and the reported possible Eurozone bailout sum for Cyprus of €25 billion. The exposure of Cypriot banks to Greek banks is estimated to be in the range of €7-10 billion. Thus the value of the gas finds could add up to around three times the amount of Cyprus's current public debt, and exceed the possible bailout amount. Of course the government revenue take from gas sales would be only a fraction of total sales revenues, albeit a substantial one, and spread out over the period of exploitation, which would be at least 20 years.

Estimation of the possible government revenue take is really not possible at this stage. No-one can forecast how future gas prices in targeted export markets as well as on the domestic market might behave in the longer term (i.e. until end of the field's commercial life), or how the costs of exploiting the gas finds develop. The production sharing agreement between Cyprus and Noble Energy for the Aphrodite field makes a 65/35 split in favour of Cyprus, but since this is based on profits the government's revenue take would be much less. So as not to evade the question entirely, if the total value of the present find in the Aphrodite field were around $40 billion, then annual average gross sales revenues over 20 years would be $ 2 billion per annum. If the government revenue take were a hypothetical 50 percent, the annual revenue would amount to around $1 billion, or around €800 million, which compares with Cyprus's current tax revenues of about €8 billion. This would be a highly useful amount, but it would need major further finds along the lines of the speculative amounts quoted below to transform the Cypriot budget to the point that 'Dutch disease' problems would arise.

If 25 percent of these revenues were transferred to Northern Cyprus, this would be proportionately more significant for its current budget. Turkey has been supporting the Northern Cyprus budget with an annual grant of about $400 million (€325 million),[3] which happens

to be in the region of the hypothetical amount of revenues indicated above.

The proven quantities of Cypriot gas would be multiplied five times if added to Israeli offshore gas. Israel's gas finds close to the Israeli-Cypriot EEZ frontiers are currently estimated to amount to 26 tcf for the Tamar and Leviathan fields.[4] If even a part of these Israeli resources were to be piped to Cyprus, this would certainly enhance the economics of monetizing these resources through investments in liquefied natural gas (LNG) facilities located in Cyprus.

Cyprus has very recently announced the results of its invitation for bids for exploration licenses for a second round of exploration blocks – all of blocks 1 to 13, except for block 12 are already licensed (see Annex I and Annex II). The list of fifteen applications was announced on 11 May 2012 (see Annex III). While several major international oil companies are absent, Total, ENI and Gazprom interests are represented. The Oxford Institute study comments that this group of companies has a wide range of business, financial and technical capabilities, with 'probably sufficient skills and financial strength in aggregate to realize the upstream and monetization/export potential of Cyprus'.[5]

The gas discovery has to be kept in perspective, though. While there has been some mention by Cypriot officials that its gas reserves might amount to 80 to 100 tcf, thus many times the discoveries so far, Cyprus is not about to become another Qatar (see Annex IV). The US Geological Survey has produced an estimate of 122 tcf for the entire Levant Basin, which includes the territorial waters of Israel, Lebanon, Palestine (Gaza) as well as Cyprus, without however allocating this total among the several countries. These amounts of around 100 tcf, which are still of a speculative nature, would approximate the reserves of Azerbaijan and Egypt together, and so enter the league of significant world production sites.

What does the Law of the Sea have to say?

There is a well developed body of international law governing maritime boundaries and rights to undersea resources. The basic rules are set out in the 1982 UN Convention on the Law of the Sea (UNCLOS), with arbitration and judicial facilities available to resolve disputes, notably through the International Court of Justice (ICJ) and the International Tribunal for the Law of the Sea (ITLOS). In outline, UNCLOS provides that (coastal) states are entitled to an EEZ and continental shelf of up to 200 nautical miles, provided there are no overlapping claims from other states (in some circumstances a state can claim an extended continental shelf beyond 200 nautical miles, but there is not enough 'sea room' in the Mediterranean for such claims). Where there are overlapping claims, which is clearly the case between Cyprus and

2 For detailed accounts see: International Crisis Group, 'Aphrodite's Gift: Can Cypriot Gas Power a new Dialogue?', *Europe Report* No. 216, 2 April 2012, http://www.crisisgroup.org/en/regions/europe/turkey-cyprus/cyprus/216-aphrodites-gift-can-cypriot-gas-power-a-new-dialogue.aspx; Anastasios Giamouridis, 'The Offshore Discovery in the Republic of Cyprus. Monetisation Prospects and Challenges', *Oxford Institute for Energy Studies Working Papers*, July 2012, http://www.oxfordenergy.org/wpcms/wp-content/uploads/2012/07/NG_65.pdf; Hubert Faustmann, Ayla Gürel and Gregory M. Reichberg (eds), 'Cyprus Offshore Hydrocarbons: Regional Politics and Wealth Distribution', *PRIO Cyprus Centre Report* No. 1/2012, July 2012, http://www.prio.no/upload/cyprus offshore hydrocarbons.pdf.

3 'Turkey, Northern Cyprus sign economic development deal', *Hurriyet Turkish Daily News*, 5 April 2007 (more recent data sought).

4 Brenda Shaffer, 'Energy Resources and Markets in the Eastern Mediterranean Region', *GMF Policy Briefs*, June 2012, http://www.gmfus.org/archives/energy-resources-and-markets-in-the-eastern-mediterranean-region.

5 Giamouridis, 'The Offshore Discovery in the Republic of Cyprus', cit.

Turkey, UNCLOS calls for an 'equitable solution'. The 'delimitation methodology' developed by the ICJ comprises a three stage process beginning with a provisional delimitation based on the median line. The next stage is to consider whether there are any factors that call for an adjustment of the provisional line in order to achieve an equitable result. The third and final stage is to verify that the adjusted provisional line does not lead to an inequitable result 'by reason of any marked disproportion between the ratio of the respective coastal lengths and the ratio between the relevant maritime area of each State by reference to the delimitation line'.[6] There is clearly much scope for endless legal and political exchanges here.[7] A particular problem is that while Cyprus has acceded to UNCLOS, Turkey has not, mainly because of implications for its highly complex and unresolved disputes with Greece over Aegean waters. However UNCLOS has secured sufficiently widespread global recognition that most lawyers consider its provisions on maritime boundaries and undersea resources as part of customary international law, which means that they are binding on all states whether they have acceded to UNCLOS or not. It is also of note that Turkey has concluded continental shelf and EEZ boundary agreements in the Black Sea with Bulgaria and Ukraine, as well as a continental shelf agreement with Northern Cyprus, which reinforces the relevance of UNCLOS for Turkey. Both the EU and US have recognized Cyprus' EEZ.

What does Turkey say?

Turkey's position is that it does not recognize the legitimacy of the EEZ agreements that Cyprus has signed with Egypt, Lebanon and Israel because Cyprus remains a divided island and cannot represent the interests of Northern Cyprus in a hypothetically reunited island, which would have a single EEZ. Turkey also makes claims to a continental shelf, delimited to the west of Cyprus by a median line between Turkey and Egypt, and partly overlapping with blocks 1, 4, 6, and 7 of Cyprus' EEZ (see Annex I), ignoring Cyprus on the grounds that it is an island. Such an argument has some validity when it concerns small uninhabited islands or rocks. However this hardly applies to Cyprus.

Turkey has followed this up by agreeing with Northern Cyprus not only to a continental shelf delimitation boundary between Northern Cyprus and itself, but also to Northern Cyprus's claims to rights in waters extending to the south and southeast of Cyprus through to blocks 1, 2, 3, 8, 9, 13, and above all block 12, within a few kilometres from where the Aphrodite gas find has been made. As the map in Annex II shows, this is a highly implausible claim for Northern Cyprus and is manifestly a tactical political move to question Cyprus's own EEZ maritime boundaries with Israel and Egypt. It is as if Northern Cyprus were allocating to itself the continental shelf of almost the entire island of Cyprus, except for its western offshore zone, which Turkey claims as part of its own continental shelf.

This has been followed by Northern Cyprus giving exploration licenses to the Turkish state oil company TPAO to research blocks not only in the waters between Turkey and Northern Cyprus, but also in the southeastern sector of Cyprus' EEZ (again blocks 1, 2, 3, 8, 9, 12 and 13 as the map in Annex II). Turkey has further sent seismic research vessels to the area, and threatened to drill there. The Turkish Minister for EU Affairs, Egemen Bağış, was reported as saying in September 2011 that Turkey will defend its rights in the area since 'this is what we have a navy for'.[8] This is reciprocated by Israel, which discusses ideas for naval and air force defence cooperation with Cyprus, notably for defending drilling activities and even for possibly granting Israel's air force access to air base facilities in Cyprus.

Note that Turkey's continental shelf claims do not extend the median line with Egypt all the way to the south and southeast of Cyprus, which would be redoubling the implication that Cyprus does not exist for the purpose of EEZ delimitation. Even if UNCLOS leaves the field open for possible adjustments to a theoretical median line between Turkish, Cypriot and Egyptian EEZs, it seems highly unlikely that a Turkish EEZ claim to the waters of the extreme southeast corner of Cyprus' EEZ (adjacent to the Egyptian and Israeli EEZs) would be upheld at the ICJ if the case were presented there. Instead, its continental shelf agreement with Northern Cyprus serves the purpose of confusing the status of these waters, which fits with the explicit Turkish warnings to international oil companies not to invest there, under threat of excluding themselves from commercial or investment opportunities in Turkey itself. All in all, the scene is set for escalating conflict, with dark threats of the use of force.

On the other hand, as suggested by Mehmet Oğütçü, an obvious route for de-escalation would be to take the EEZ and continental shelf disputes between Cyprus and Turkey to the International Court of Justice for judgement, or to the International Tribunal for the Law of the Sea for arbitration.[9] Romania and Ukraine resolved their Black Sea dispute at the ICJ in 2009, and Croatia and Slovenia are currently pursuing the route of binding arbitration for their Adriatic Sea dispute.

Transport and commercialization options

Beyond developing the production site lies the question how Cyprus's export capacities would be transported to European or world markets. The conceivable options have been thoroughly analysed in a recent report of the Oxford Institute for Energy Studies.[10]

The first is a pipeline from Cyprus to Greece, which is advocated by the Greek public gas corporation DEPA. However, this would be a very long pipeline, 700 km undersea to Crete, 200 km on land in Crete, and another 200 km to the Greek mainland. While offering obvious political attractions as well as the direct linkage to EU networks, this sea route would be very deep as well as long, and the Cyprus authorities do not seem to be backing the idea.[11]

The second pipeline idea would see a pipeline from the Aphrodite field landing on southern Cyprus, traversing the island to the north, then going undersea again to Turkey, linking up with the trans-Anatolian network that will carry Caspian gas to Europe. This would involve less costly infrastructural investments. Ankara has suggested that this could be negotiated following a settlement of the Cyprus conflict. However this scenario would depend on a huge and rapid build-up of political trust between all parties, which stretches the imagination of even the most optimistic peace advocates. A much more limited variant for land pipelines would be a gas connection from southern to northern Cyprus, which would be of limited economic significance but still of considerable symbolic political appeal in the context of reunification and reconciliation. But this could be included as a secondary feature of the other options.

There is the economic argument that better commercial terms might be obtained through a third, Liquefied Natural Gas (LNG) option. This would certainly require very expensive investments, with sub-options here for either an investment to handle just Cypriot gas, or a joint venture with Israel, whose offshore fields would be connected to Cyprus by pipeline. This option would bring the advantage of flexibility to export by LNG tanker to anywhere in the world, and profit from opportunities where spot prices in world markets are higher than long-term contract prices for pipeline supplies to Europe. In particular, Cyprus would not be locked into a monopolistic pipeline situation through Turkey, where its bargaining position over transit costs and contract prices would be limited. The Oxford Institute study presents detailed information and calculations on how the commercial terms for LNG could be superior to the pipeline options.[12] The Cyprus

6 ICJ, Judgement of 3 February 2009 on Maritime Delimitation in the Black Sea (Romania v. Ukraine), http://www.icj-cij.org/docket/files/132/14987.pdf at page 122.

7 Nuno Sergio Marques Antunes, *Towards the Conceptualisation of Maritime Delimitation. Legal and Technical Aspects of a Political Process*, Leiden, Martinus Nijhoff, 2003.

8 'Donanmalar bunun için var', *Zaman*, 2 September 2011.

9 Mehmet Oğütçü, 'Rivalry in the Eastern Mediterranean: The Turkish Dimension', *GMF Policy Briefs*, June 2012, http://www.gmfus.org/archives/rivalry-in-the-eastern-mediterranean-the-turkish-dimension.

10 Giamouridis, 'The Offshore Discovery in the Republic of Cyprus', cit.

11 Ibidem.

12 Giamouridis, 'The Offshore Discovery in the Republic of Cyprus', cit.

authorities are discussing a proposed LNG investment with Noble Energy at a site in the Vasilikos industrial area on the south coast.

A fourth option would be to employ completely new technologies for Floating liquefaction plants (FLNG). This is a new technological development, not yet operational, although a first major investment is being contracted by Shell for a location offshore Australia, and it is under consideration elsewhere. While Cyprus does not seem to be interested in this option, it is being considered by Israel, which would of course then have implications for a possible LNG joint venture under the third option. Overall the LNG option appears to be in the lead, albeit with planning still at an early stage. Environmental considerations will also have to be brought into account, and at first sight these would seem to weigh in favour of the shortest sub-sea pipelines, reinforcing the case for LNG.

Need for a Plan B for conflict resolution

How does the prospect of the gas investments affect the Cyprus peace process? Clearly there is a need for avoidance of major political risks for multi-billion euro investments to be made. Could there be an adjustment of negotiating parameters to facilitate this? So far the approach of both the Annan Plan and the current negotiations has been comprehensive with the dominant mantra being 'nothing is agreed until everything is agreed'. Multiple complex chapters are to be brought into line together: for a federal constitution, property settlements, territorial adjustments, security arrangements, citizenship rights, and economic matters. But this approach has manifestly failed.

Could there now be a different approach, consisting of making the simplest steps rapidly so as to achieve a significant interim agreement in the interest of all parties, the two Cyprus communities as well as Turkey and the EU? Could such an agreement be envisaged along the following lines, capable of settlement within a year? The frontiers between Northern and Southern Cyprus have already been largely opened with various crossing points, building on the only real achievement of the Annan Plan period, and legally defined by the EU in the so-called Green Line Regulation of 2004. Goods of Cypriot origin already now pass the Green Line in either direction without payment of customs duties. Turkish Cypriot citizens already are, or are able to become citizens of the Republic of Cyprus and thus also of the European Union, which is a further invaluable starting point.

Northern Cyprus would remain essentially self-governing, as would Greek Cyprus, with both constituting a single Republic of Cyprus. Northern Cyprus would not become a second state in international law, but would have direct relations with the European Union for the operation of relevant EU policies, as is now the case with numerous sub-state authorities in decentralised member states. Northern Cyprus would come fully under the jurisdiction of European Union law, and would benefit from all EU policies, such as structural funds, as would any normal region of the EU in line with its income per capita ranking. Northern Cyprus already moves autonomously in adopting various EU standards with the help and encouragement of the European Commission. The two constituent states would have official representations in Brussels in addition to the accredited Permanent Representation of the Republic of Cyprus. There would not be a heavy federal constitutional structure for Cyprus. The present Greek and Turkish parts would remain largely self-governing, subject mainly otherwise to European Union law, with very limited federal competences.

Although Greek Cyprus (including President Christofias in the current negotiations) has tended to push for a relatively strong federal structure in official bilateral negotiations, there is support on both sides of the island for maximum self-governance for both communities, and minimal complications through shared competences and power-sharing. A prominent candidate expected to stand in the forthcoming presidential election in February 2013, the leader of the DISY Party, Nicos Anastasiadis, appears to be of this view, proposing 'a strong but devolved (decentralized) Federation, with a single international personality, single sovereignty and a single foreign policy. But a federation where the decisions affecting the everyday life of our people will be taken at the level of the constituent state, in the spirit of the EU principle of Subsidiarity'.[13] A simplified constitutional arrangement along these lines should be welcomed by the Turkish Cypriot side, since it comes closer to their long held views regarding a loose federal arrangement.

A minimal regime could be regarded as an interim step, leaving open the possibility of a more elaborate federal structure later on, as and when there is a deepening of renewed functional integration and political trust. However that need not be fought over now. On the contrary, what the long-run constitution should look like should be left open, bearing in mind that a federation which is a member of the EU is a radically different proposition from the standard federal textbook case outside the EU. For example, the case of the Belgian federation reveals a continuing hollowing out of the competences of the federal government, without implying the disintegration of the Belgian state, widely viewed as impossible. Belgium has devised special procedures for its participation in EU affairs, of potential interest to Cyprus. Before each EU Council session, the entities meet to decide common positions with the federal authorities, and if the entities do not agree there is no Belgian position. Further, where a specialised Council deals with competences for which there is no federal minister, the minister of one of the entities represents Belgium, under an arrangement provided for by the Belgian constitution, in accordance with EU law (e.g. the Flemish minister for the environment recently even chaired the environment Council).

The remaining trade and transport restrictions between Northern Cyprus and Turkey and the rest of the European Union would of course be scrapped. These minor port and airport restrictions are not life or death issues for the economies of either Northern Cyprus or Turkey, since they are largely circumvented in practice (e.g. flying from anywhere to Northern Cyprus via Istanbul). Goods can currently also be exported by sea from the EU to the northern port of Famagusta, subject however to the risk that if the ship were later to carry goods to the southern port of Limassol it could be arrested there. Nor are these anomalous limitations of any material benefit to Greek Cyprus, and are only retained as bargaining chips for wider objectives.

The Immovable Property Commission (IPC) has moved into higher gear following a ruling of the European Court of Human Rights in 2006 that cases should go through the IPC before being referred to Strasbourg. So far, it has seen 221 cases resolved out of 3,174 cases presented to it, costing UK£ 70 million so far in compensation paid by the Turkish side. The majority of the cases have been concluded through 'friendly settlements'.[14] In addition to settlements by financial compensation, increasing possibilities for settlement by property exchange are developing. While it would be good to find ways to accelerate the rate of settlement, it is already a positive point that there is an ongoing 'micro-settlement' process, independently of the 'macro-settlement' process which remains stuck.

There will have to be some territorial adjustments, minimally handing back to Greek Cyprus the ghost-town and former seaside resort of Varosha on the present borderline near Famagusta. How much further to go in territorial adjustment would remain a variable for negotiation. Yet the question of who controls small borderline localities should very gradually fade away into political obsolescence. Who is worried these days about the tortuous geography of the Belgian-Dutch and Belgian-French frontiers, or the Spanish town of Llivia, which is an enclave in the French department of Pyrénées Orientales? No-one. Could not civil society organisations and political parties on both sides of the island become promoters of such features of post-modern Europe, as models of conflict resolution? The role of Turkey as security

13 Speech of Mr Anastasiadis, 'The Present Stalemate in the negotiations and the way forward', 30 May 2012.

14 Stefanos Evripidou, 'Only seven per cent of 3,000 IPC cases settled', *Cyprus Mail*, 21 April 2012.

guarantor would not need to be touched at the treaty level, but Turkey would make an immediate, significant reduction in its current hugely oversized military presence, together with a declaration of its intention to make further progressive reductions in line with improved relations between all parties. Formal changes to the guarantee treaty, under which the UK as well as Turkey is a guarantor party with two British sovereign bases remaining as enclaves within Greek Cyprus, could await a later date, as and when the political context is transformed for the better. Compared with the myriad problems of its Middle Eastern neighbours, the security aspects of the Cyprus problem have already faded in intensity with near-zero expectations of renewed military conflict on the island, except in the musings of old-fashioned security folk. At the very least, this is a security question ripe for 'de-securitization' and definitive resolution.

Why a breakthrough now?

The various foregoing elements have long featured in the negotiation process, which however has failed to translate into an overall agreement, first because of the 2004 rejection of the Annan Plan, and since 2008 due to the inconclusiveness of renewed peace talks. Why could there be a breakthrough now, along the lines postulated?

The gas is the reason. Exploitation of the gas finds will require major investments by the corporate and financial sectors. Investors may be hesitant to make these investments in the prevailing climate of political uncertainties and tensions between Cyprus and Turkey over the EEZs and continental shelves, and over the exploration blocks in particular. Turkish threats to exclude international oil companies that invest in Cypriot water from investment opportunities on its own territory already seem to have deterred many major companies from bidding in the second round of licensing (Total, ENI and Gazprom interests are exceptions). But even the middle-sized companies that have advanced their bids may hesitate about investing in a climate of political risk, and their insurers may take the same view.

Cost-benefit calculations

How would the cost-benefit calculus of the postulated settlement look for the four interested parties, the two Cyprus communities, Turkey and the EU? For Greek Cyprus, the crucial advantage would be the possibility to exploit the gas finds in an economically beneficial way, and as fast as possible. Since in the best case the required investments would take several years to be realised, speed in achieving a political breakthrough is all the more important for the Cypriot economy. There would be some further advantages in terms of territorial gains and progressive demilitarisation of the north. There would be no need for cumbersome federal powersharing institutions.

For Turkish Cyprus, there would be normalization of trading arrangements, full participation in EU policies and a share of the gas revenues, and above all normalisation of the status of its citizens, administration and businesses in international affairs and the EU. There would hardly be any loss of freedom of self-government beyond accepting EU law and policies which are to some extent being adopted unilaterally in any case. There would be cession of some territory, of which uninhabited and decayed Varosha is currently of no value.

For Turkey, the reasoning is more complex. Of course Turkey would welcome the improved status quo for Northern Cyprus and removal of trading, port and airport discriminations. It could welcome the new political context to diminish its costly military occupation, and possibly its subsidies to Northern Cyprus as a result of the gas revenue sharing, although these costs have always been of secondary concern compared to the political issues. It would welcome the improvement of its relations with the EU, which could advance through the opening of additional accession negotiation chapters.

There would be a reversal of the present risk of a further escalation of tensions between Turkey and all its western partners. The US as well as the EU recognize Cyprus's EEZ. Israel is cooperating with Cyprus over gas and security. Russia is helping Cyprus financially, and has serious interests in Israel, including its gas fields, and potentially in Cypriot gas fields too. If tensions over Cypriot gas fields were further heightened along the lines of some political rhetoric, Turkey could find itself extremely badly positioned diplomatically in opposition to a remarkable coincidence of the interests of the EU, US, Cyprus, Israel and Russia on the point of maritime boundaries.[15] Turkey has real strategic security concerns almost everywhere to its east – Syria, Iran, Iraq, Afghanistan, Israel-Palestine, etc. There are thus high stakes involved for its foreign policy. At risk would be its image as a peaceful modern democracy, as a reference for its Arab neighbours, many of whom are in a state of turmoil, with abundant instances or threats of civil wars, state failure, radicalisation and safe havens for terrorists. Turkey's foreign policy of 'zero problems with its neighbours' has been overtaken by events, and is now accompanied by (in the words of one Turkish commentator) 'multiple problems with its allies', making a case for recalibration.[16] The argument for reversing the recent escalating tensions over Cypriot gas would seem to be strikingly in Turkish interests.

The European Union would of course welcome this major step towards conflict resolution between the Cypriot communities and willingly exploit its institutional and legal capacity to deploy its policies fully in Northern Cyprus as part of the solution. It would further welcome the opportunity to put its relations with Turkey on a less problematic footing, and this should lead at least to the opening of further accession negotiation chapters, and perhaps a more fundamental reappraisal of the Turkish accession process in various capitals.

Is reconciliation between Cyprus and Turkey conceivable?

It would require big changes in attitude at the top political level to switch into a mode of constructive negotiation with a genuine will to succeed and overcome present obstacles. Is this politically conceivable? One might recall the example of Greece and Turkey, which in the years around the turn of the century achieved a huge improvement in their relations which had, in 1996, deteriorated to the verge of military conflict over some tiny uninhabited Aegean islands (Imia-Kardak). George Papandreou, then Greek foreign minister, and his Turkish counterpart, Ismail Cem, triggered the improvement with spontaneous mutual assistance after the earthquakes that hit Turkey in August 1999 and Greece the month after. This 'seismic diplomacy' was followed with more durable initiatives, including unequivocal support by Greece for Turkey's EU accession ambitions. The two foreign ministers championed their breakthrough with the argument that the two peoples wanted just this, rather than the old story of geopolitical antagonism.

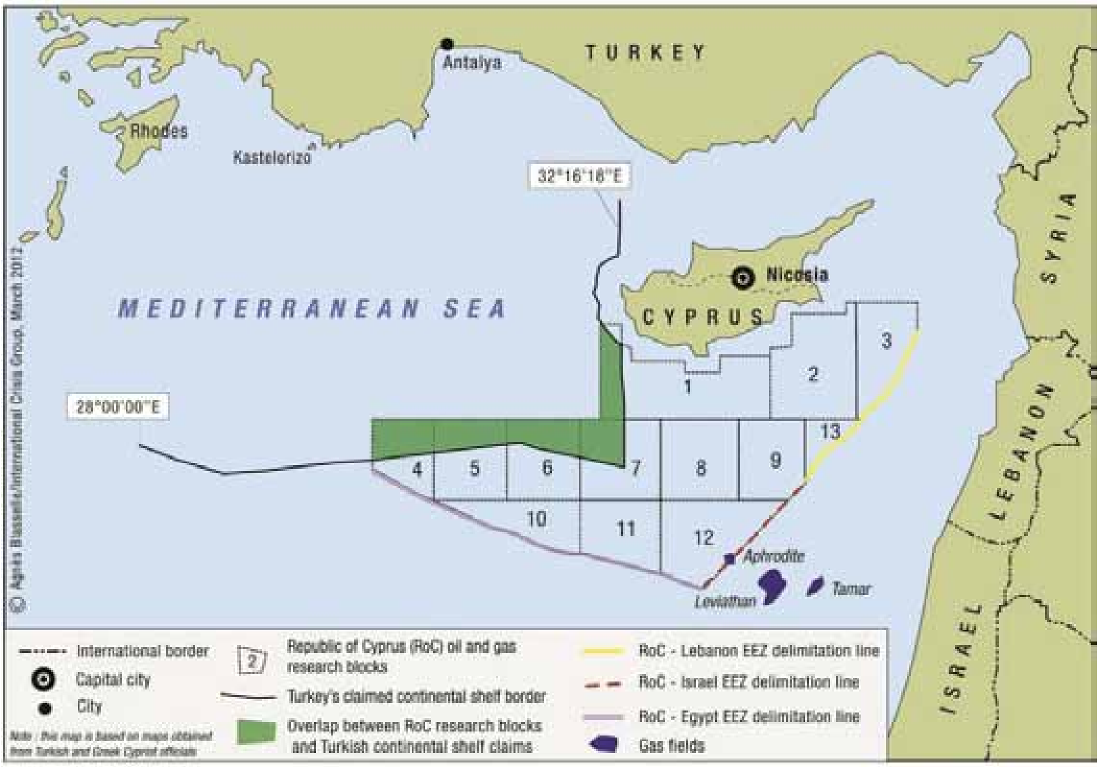
Opinion polls of Greek and Turkish Cypriots conducted in 2008 gave their leaders an analogous story in relation to the stalled peace process. In response to the question 'to what extent do you wish – and expect from the leaders – that they reach a mutually acceptable settlement through the peace process', the answers were decidedly positive and identical, with two thirds answering positively and only one quarter negatively in both cases.[17] Cyprus has now been hit by its own 'seismic' economic shocks. At present the options are wide open between a new gas peace or a gas war, or just smouldering tensions and flare-ups benefitting nobody and detrimental to all.

15 For a more detailed review of the regional context and interests of all parties, see Michael Leigh and Charlotte Brandsma, 'Energy Resources in the Eastern Mediterranean: Source for Cooperation or Fuel for Tension', *Brussels Forum paper series*, March 2012, http://www.gmfus.org/archives/energy-resources-in-the-eastern-mediterranean-source-for-cooperation-or-fuel-for-tension.

16 For an assessment of the case for a recalibration of Turkish foreign policy, see: Eduard Soler i Lecha, 'The Conceptual Architecture of Turkish Foreign Policy: An update in the light of regional turbulence', *Documentos CIDOB Mediterráneo y Oriente Medio* No. 18, July 2012, http://www.cidob.org/en/content/download/32360/522105/file/documentos_web_mediterraneo_18.pdf.

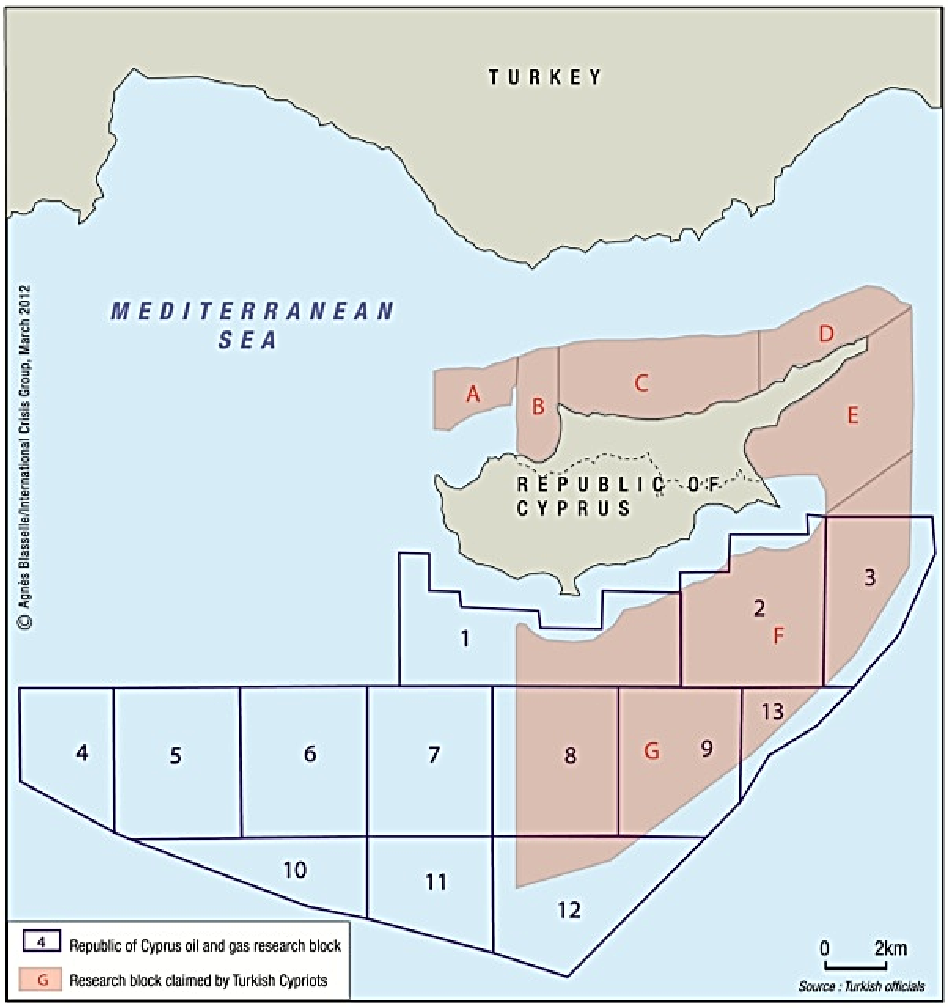
17 The figures were 64 %, positive, 25% negative, and 11% ambivalent among Greek Cypriots, and 65% positive, 24% negative, and 11% ambivalent among Turkish Cypriots. See Alexandros Lordos, Erol Kaymak and Nathalie Tocci, *A People's Peace in Cyprus. Testing Public Opinion on the Options for a Comprehensive Settlement*, Brussels, Centre for European Policy Studies, 2008, http://www.ceps.eu/ceps/download/1646.

ANNEX I: Exploration blocks of the Exclusive Economic Zone of the Republic of Cyprus and overlapping parts of the Continental Shelf claimed by Turkey



Source: International Crisis Group, 'Aphrodite's Gift', cit.

ANNEX II: Turkish Cypriot claimed hydrocarbon research blocks



Source: International Crisis Group, 'Aphrodite's Gift', cit.

ANNEX III: Applicants for the second round of Cypriot gas exploration licenses

1.	Petra Petroleum
2.	ATP East Med – Naphtha Israel Petroleum - DOR Chemicals - Modiin Energy
3.	Total
4.	Total – Novatek – Gazprom Bank
5.	Premier Oil – Vitol
6.	Premier Oil – Vitol – Petronas
7.	Edison – Delek Drilling – Avner Oil – Enel – Woodside Energy
8.	ENI – Kogas
9.	C.O. Cyprus Opportunity Energy – AGR Energy
10.	OAK Delta NG Exploration
11.	Capricorn Oil (Cairn) – Marathon Oil – Oranje Nassau – CC Energy (CCC)
12.	Winevia Holdings
13.	RX-Drill Energy Cyprus
14.	PT Energi Mega Persada – Frastico Holdings
15.	Emmanuelle Geo Global Rosario

Source: Giamouridis, 'The Offshore Discovery in the Republic of Cyprus', cit.

ANNEX IV: Estimated natural gas reserves

	Trillion cubic feet (tcf)	Trillion cubic metres (tcm)
Russia	1,580	44
Iran	1,045	29
Qatar	894	25
Turkmenistan	283	8
Algeria	159	4
Egypt	78	2
Azerbaijan	44	1
Cyprus - discovery	7	0.2
Cyprus – speculative assessment	80-100	2-3
Israel	26	0.7
East Med Levant Basin	122	3

Sources: BP Statistical Review of World Energy, June 2011, for all except Cyprus, Israel, Levant.
Cyprus: Announcement of a find of 5 to 8 tcf, with mean of 7tcf, by Noble Energy in December 2011. The director of the Cyprus Energy Service, S. Kassinis, has said that total gas reserves in all off-shore blocks could amount to 80-100 tcf.
Israel: Shaffer, 'Energy Resources and Markets in the Eastern Mediterranean Region', cit.
Levant basin: US Geological Survey, 'Assessment of Undiscovered Oil and gas resources of the Levant basin Province, Eastern Mediterranean', *Fact Sheet 2010* No. 3014, March 2010, http://pubs.usgs.gov/fs/2010/3014. The 'Levant Basin' includes territorial waters of Israel, Lebanon, Palestine (Gaza) and Cyprus, without the source giving separate estimates for each.