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Abstract

Any significant improvement in Turkey-EU relations depends on a solution to the Cyprus problem. A Cyprus settlement would allow the transfer of Eastern Mediterranean gas to the EU via Turkey, thus increasing Turkey's strategic significance for the EU as a key gas transit country for Europe's gas supplies. More critically, it would clear the way for meaningful progress in Turkey's EU accession process, which has been stalled because many chapters are being blocked for reasons related to the Cyprus problem. To date, gas found offshore Cyprus has made such a settlement more difficult by deepening the parties' divisions over sovereignty and has thus become an impediment to progress in Turkey-EU relations. Yet, there is a way in which the gas discovered in the Eastern Mediterranean – Israel as well as Cyprus – could conceivably help Turkey-EU relations: namely, a gas-cooperation scenario involving Israel, Cyprus and Turkey that offers strong enough incentives for all parties to solve the Cyprus problem.

In this paper we shall examine the implications for Turkey-EU relations of the recent natural gas finds in the Eastern Mediterranean Sea. In particular, we shall ask whether the Eastern Mediterranean gas could play a role in revitalising the relationship or whether, instead, it could pose further obstacles to closer EU-Turkey ties.

We shall start by noting the current state of relations between the EU and Turkey. This will help us to identify some of the factors that might improve the relationship, as well as specific developments that would be necessary for this improvement to be possible. We shall focus in particular on two aspects of Turkey's relations with the EU: first, Turkey's role in promoting greater EU energy security as a transit country for natural gas along the so-called Southern Gas Corridor; and second, Turkey's EU accession process. These are technically separate issues, but they are often perceived to be linked by various actors both in the EU and in Turkey.¹ We shall examine what impact the gas discoveries in the Eastern Mediterranean, particularly offshore Cyprus and Israel, could have on these two aspects of Turkey-EU relations.

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1 See, for example, John Daly, "Turkey Gets More EU Roadblocks Towards Accession, Now Energy Chapters", in *OilPrice.com*, 13 February 2012, <http://oilprice.com/Energy/Energy-General/Turkeys-EU-Dreams-Hit-New-Snag-Energy-Production.html>; and Turkish Presidency, *President Gül Delivers Speech at Economy and Energy Summit*, 21 November 2013, <http://www.tcgb.gov.tr/news/397/87824/presiden-t-gul-delivers-speech-at-economy-and-energy-summit.html>.

Turkey's Role as a Transit State for Gas Supplies to the EU

The EU is a major natural gas consumer and is highly dependent on imports from non-EU countries,² with Russia as its main supplier.³ Thus, ensuring security of external gas supplies is a key priority in the EU's energy policy. In this context, its dependence on Russia has been a concern for the EU, especially since the supply crises of 2006-2009, and has led to a drive to diversify supplies.⁴ One of the main constituents of this effort is the development of a "Southern Corridor", which "aims at supplying Europe with gas coming directly from the Caspian basin and the Middle East [by-passing Russia]"⁵

Turkey, which is a natural bridge linking Europe to the Caspian Basin and the Middle East, is identified by the EU as the "key transit state" in its Southern Corridor strategy.⁶ Over the years, this strategy has seen a number of revisions and adjustments, but Turkey's role as a key transit state has not changed.⁷

After the fading out of the originally proposed Nabucco pipeline project,⁸ the realisation of the Southern Corridor now depends on the construction of the planned Trans-Anatolian natural gas pipeline (TANAP) and the Trans-Adriatic pipeline (TAP). TANAP is aimed at "transportation of the natural gas to be produced in Shah Deniz 2 field and other fields of Azerbaijan (and other possible neighboring countries) through Turkey to Europe".⁹ An Azeri-Turkish initiative, it would stretch from the Georgian-Turkish border in the east to the Turkish-Greek border in the west, where it would connect to TAP. In the east, TANAP would receive gas from the existing South Caucasus Pipeline (SCP).

2 In 2010 the EU imported 62.4% of the gas it consumed. See Eurostat, *Energy production and imports*, August 2012, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports. In 2030 the EU's import dependency with regard to gas is expected to reach about 80%. See Mott MacDonald, *Supplying the EU Natural Gas Market*, November 2010, http://ec.europa.eu/energy/international/studies/doc/2010_11_supplying_eu_gas_market.pdf.

3 Eurostat, *Natural gas consumption statistics*, May 2013, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Natural_gas_consumption_statistics.

4 Michael Ratner et al., "Europe's Energy Security: Options and Challenges to Natural Gas Supply Diversification", in *CRS Report for Congress*, No. R42405 (August 2013), <http://www.fas.org/spp/crs/row/R42405.pdf>.

5 European Commission, *EU starts negotiations on Caspian pipeline to bring gas to Europe* (IP/11/1023), 12 September 2011, http://europa.eu/rapid/press-release_IP-11-1023_en.htm.

6 European Commission, *Energy infrastructure: Studies*, 2010, http://ec.europa.eu/energy/infrastructure/studies/cdc_report_2010_en.htm.

7 David Koranyi and Nicolò Sartori, "EU-Turkish Energy Relations in the Context of EU Accession Negotiations: Focus on Natural Gas", in *GTE Working Papers*, No. 5 (December 2013), <http://www.iai.it/content.asp?langid=2&contentid=1019>.

8 *Ibidem*.

9 TANAP, *What is TANAP*, 2014, <http://www.tanap.com/en/what-is-tanap>.

Recent gas findings in the Eastern Mediterranean have led a number of experts to believe that the region could be a source of gas for the Southern Corridor. For example, it has been suggested that gas from the Eastern Mediterranean could be linked to TANAP.¹⁰ This would be complicated in practice, and not only for political reasons: Azerbaijan may want to reserve any available capacity of TANAP for potential gas from its other offshore fields.¹¹ The Eastern Mediterranean gas reserves, though not critical to the viability of the Southern Corridor, could still make a significant contribution. The latest estimate from Noble Energy for the resources in Cyprus' Aphrodite field is 3.6 to 6 trillion cubic feet (tcf) with a gross mean of approximately 5 tcf,¹² while the resources of the giant Israeli Leviathan field, which will be used for export as well as domestic consumption, are estimated at 19 tcf.¹³ Charles Ellinas, the executive president of the Cyprus National Hydrocarbons Company (KRETYK), has said that with a lot more gas expected to be found offshore Cyprus, the Eastern Mediterranean region could supply up to a third of the EU's additional gas needs, which are expected to reach 100 bcm by 2025.¹⁴

If Eastern Mediterranean gas can be sent to Europe via Turkey, it would support Turkey-EU relations by increasing Turkey's importance as a gas transit country and thereby helping the EU's quest to free itself from overdependence on Russian gas. Additionally, it would have a positive impact on relations by helping to sustain the long-term alliance between the EU and Turkey in the Eastern Mediterranean – a region of key interest for the EU.¹⁵ The alliance has recently suffered because of the two sides' profoundly different positions regarding Cyprus' Exclusive Economic Zone (EEZ) and hydrocarbons exploration in the area.

In terms of exportable resources, Eastern Mediterranean gas currently means gas from Cyprus and Israel. Obviously, a prerequisite for exports of gas from Cyprus or Israel to Turkey is a certain level of geopolitical harmony between Turkey and the other two countries. Relations between Turkey and Israel, which broke down after the Gaza Freedom Flotilla incident of 31 May 2010, have been on a very slow course of recovery so far.¹⁶ The situation regarding Cyprus is even more complex: there are no diplomatic relations between Turkey and the (*de facto* Greek Cypriot) Republic of Cyprus (RoC) as a result of the Cyprus problem, which is the greatest impediment to exports of gas from Cyprus to Turkey. The lack of a political settlement in Cyprus also hinders exports of gas via a pipeline from Israel to Turkey. Given the lack of diplomatic relations between Israel and Lebanon and the on-going civil war in Syria, a pipeline from Israel to Turkey would most likely have to run through Cyprus' EEZ, including the section controlled by the RoC. Although the UN Convention on the Law of the Sea (UNCLOS) does not give the right to a coastal state (in this case, the RoC) to prevent other states from laying cables or pipelines in its EEZ [Articles 58 and 79(2)], in the case of pipelines it does require that the owner of a pipeline obtain the coastal state's consent regarding the pipeline's trajectory [Article 79(3)]. Indeed, speaking at the Annual Conference of the Cyprus Centre of the Peace Research Institute



Oslo (PRIO) in November 2013, Ambassador Michael Lotem, special envoy for energy of the Foreign Ministry of Israel, said, "For sure Israel will not try to pass the EEZ without Cypriot [i.e., the RoC's] consent".¹⁷ Moreover, RoC officials have made it clear that this cannot happen before a settlement in Cyprus.¹⁸ Thus, if the Cyprus problem were resolved it would also facilitate gas exports from Israel to Turkey and potentially onwards to Europe, thereby bolstering Turkey's position as a transit country for EU gas supplies.

Turkey's EU Accession Process

As well as acting as an impediment to exports of Eastern Mediterranean gas to the EU via Turkey, the Cyprus problem also affects Turkey's EU accession negotiations. As of November 2013, 21 negotiating chapters had yet to be opened out of the total 35. The opening of 18 of these 21 chapters is still blocked, 14 of them for reasons linked to the Cyprus problem. Because of the Cyprus problem, Turkey does not recognize the RoC and hence refuses to open its ports and airports to traffic from the RoC, which is part of its commitment in the implementation of the Additional Protocol extending the Ankara Agreement to the new member states that acceded to the EU in 2004. As a result the EU Council suspended negotiations on eight chapters in December 2006.¹⁹ Since December 2009 the RoC has, on its own initiative, been blocking the opening of an additional six chapters, including the one on energy.²⁰ The RoC government explains this position, especially in regard to the energy chapter, as its response to Turkey's efforts to prevent it from exploring for offshore hydrocarbons in Cyprus' waters.²¹

In fact, one could go so far as to say that the main issue (albeit not the only issue) that has brought Turkey's accession process to a *de facto* standstill is the Cyprus problem.

The blocking of chapters, in particular the energy chapter, also affects Turkey-EU cooperation on energy security, in particular with regard to their common objective of Turkey becoming a gas transit country for the EU along the Southern Corridor. Closer cooperation on energy requires harmonisation of Turkey's energy legislation with the EU energy *acquis*,²² which would make Turkey and the EU part of "a single

10 See, for example, Matt Bryza, "A Tale of Two Pipelines: Why TAP has Won the Day", in *Natural Gas Europe*, 2 July 2013, <http://www.naturalgaseurope.com/southern-corridor-strategic-importance-tap-nabucco>; and David Koranyi and Nicolò Sartori, "EU-Turkish Energy Relations in the Context of EU Accession Negotiations...", cit.

11 For a useful discussion of this issue, see *ibidem*.

12 Noble Energy, *Noble Energy announces appraisal drilling and flow test results offshore Republic of Cyprus*, 3 October 2013, <http://investors.nobleenergyinc.com/releasedetail.cfm?ReleaseID=794694>.

13 Noble Energy, *Eastern Mediterranean Analyst Presentation*, 17 December 2013, <http://www.nobleenergyinc.com/Operations/International/Eastern-Mediterranean-128.html>.

14 Charles Ellinas, *Cyprus on the Mend? Cyprus Energy Reserves*, presentation at The Economist Ninth Cyprus Summit, Nicosia, 25 November 2013, http://www.hazliseconomist.com/en/event/Cyprus_on_the_mend/Speeches.

15 Patrick Nopens, "Geopolitical Shifts in the Eastern Mediterranean", in *Egmont Security Policy Brief*, No. 43 (February 2013), <http://www.egmontinstitute.be/wp-content/uploads/2013/07/SPB43.pdf>.

16 Barak Ravid, "Obama to Erdogan: Conclude normalization agreement with Israel", in *Haaretz*, 20 February 2014.

17 Authors' own notes from the conference; also tweeted at <https://twitter.com/FionaMullenCY/status/400978821517946880>.

18 See, for example, RoC Minister of Foreign Affairs Ioannis Kasoulides, *Geopolitics in the Eastern Mediterranean: A Cypriot Perspective*, speech given at the Brookings Institution, Washington, 9 May 2013, <http://www.brookings.edu/events/2013/05/09-cyprus-kasoulides>.

19 It was also decided that no chapter would be provisionally closed until Turkey fulfils its commitments. See the EU Delegation to Turkey website: *What is the current status?*, <http://www.avrupa.info.tr/en/turkey-the-eu/accesion-negotiations/what-is-the-current-status.html>. France is blocking the opening of 5 chapters, one of which is among those blocked by the EU Council.

20 Turkish Ministry of Foreign Affairs, *Turkey-EU Relations*, 2011, <http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa>.

21 Lucia Kubosova, "Cyprus remains tough on Turkey's EU talks", in *EUobserver*, 21 July 2009, <http://euobserver.com/article/28475>.

22 See European Commission, "Chapter 15: Energy", in *Chapters of the acquis*, 27 June 2013, <http://ec.europa.eu/enlargement/policy/conditions-membership/chapters-of-the-acquis>.

transit regime²³ Turkey could, in fact, adopt the energy *acquis* by becoming a member of the Energy Community Treaty. However, since Turkey feels it has leverage over the EU on energy, it is reluctant to separate the issue of energy from the issue of EU accession in this way, and discussions about becoming a member of the Energy Community Treaty have stalled.²⁴

The Need to Solve the Cyprus Problem

The Cyprus problem thus arises as a major obstacle to any significant improvement in Turkey-EU relations in both of the aspects we have discussed. Resolution of the Cyprus problem would allow transfer of Eastern Mediterranean gas to the EU through Turkey, thus bolstering Turkey's key transit country role for the EU's Southern Gas Corridor. At the same time, it would clear the way to significant progress in Turkey's EU accession negotiations, not least the opening of the energy chapter, which is key to closer EU-Turkey cooperation on energy security.

Impact of Cyprus Gas on Efforts to Solve the Cyprus Problem: The Sovereignty Question

The discovery of natural gas offshore Cyprus has led many to ask whether this could act as a catalyst to solve the Cyprus problem. The reasoning behind this question is that the commercial benefits of mutual cooperation on gas, as well as the geopolitical benefits of supporting the diversification of EU gas supplies, could constitute strong enough incentives for all parties to reach a settlement.

However, one has to argue that until very recently the reverse has been the case. Not only has unilateral exploration for natural gas (by Greek Cypriots, Turkish Cypriots and Turkey) led to mutual tensions, it was arguably an underlying cause of the delay in the re-launch of the UN-sponsored inter-communal negotiations for a settlement of the Cyprus problem.

To explain this in more detail, it is necessary to outline in brief the different positions of the parties on gas exploration.²⁵

The Greek Cypriots, being in charge of the internationally recognised RoC government, maintain that they have the sovereign right to explore for natural resources in the Republic's EEZ. They accept that natural resources will be a federal competence in the event of a settlement of the Cyprus problem and, by implication, a shared resource. But to date they have not been willing to discuss current hydrocarbons exploration either within the context of, or parallel to, the settlement negotiations. Concerning EEZ exploration rights, the international community supports the Greek Cypriot position, although most international actors generally make it clear that the revenues should be shared with the Turkish Cypriots in the event of a solution.

The Turkish Cypriots and Turkey, on the other hand, argue that the Greek Cypriots alone cannot legitimately represent the government of the RoC, which was co-founded by both communities. Hence, they may not unilaterally exercise sovereign rights at the international level (e.g., rights in the EEZ) that are jointly possessed by both communities as equal founders of the 1960 Republic. In other words, the argument is that the Greek Cypriots do not have the right, by themselves, to explore for offshore hydrocarbons.

Based on this reasoning, Turkey and the Turkish Cypriots argue that any offshore exploration or exploitation carried out or authorised by the Greek Cypriots is the unilateral act of one community. The

23 See Written evidence from John Roberts, 23 October 2011, in House of Commons Foreign Affairs Committee, *UK-Turkey relations and Turkey's regional role*, Twelfth Report of Session 2010-12, HC 1567, published on 4 April 2012, <http://www.publications.parliament.uk/pa/cm/cm201012/cmsselect/cmfa/1567/1567we23.htm>.

24 See David Koranyi and Nicolò Sartori, "EU-Turkish Energy Relations in the Context of EU Accession Negotiations...", cit.

25 For a full discussion of the positions of all interested parties and references, see chapter 4 in Ayla Gürel, Fiona Mullen and Harry Tzimitras, "The Cyprus Hydrocarbons Issue: Context, Positions and Future Scenarios", in *PRIO Cyprus Centre Reports*, No. 1/2013, <http://www.prio.no/Publications/Publication/?x=7365>.

(internationally unrecognised) Turkish Republic of Northern Cyprus (TRNC) has therefore reciprocated with its own unilateral steps, signing a continental shelf delimitation agreement²⁶ with Turkey in September 2011 – about the time when Noble Energy started drilling in the RoC's offshore Block 12. In the same month, the TRNC issued licences to TPAO for seven offshore and one onshore blocks. Two of these blocks overlap approximately 40% of the RoC exploration area in the island's southeast. Meanwhile, Turkey also claims that parts of RoC blocks 1, 4, 5, 6 and 7 in the southwest of Cyprus overlap its own continental shelf and has made quite strong statements about its intentions should there be any exploration by the RoC in these areas.²⁷ Perhaps not accidentally, these five blocks have to date not been licensed by the RoC, although seismic activity has recently taken place in these areas. Seismic surveys have been conducted on behalf of TPAO, most recently in November and December 2013, in both of the areas licensed by the TRNC and in the area claimed by Turkey.²⁸

Thus, the discovery of natural gas offshore Cyprus has so far led to tensions in the maritime areas and "tit for tat" exploration. More importantly, perhaps, for the question under discussion, it has reinforced the parties' differing positions on the question of sovereignty and thereby made the resumption of negotiations even more difficult. At the time of writing in February 2014, the two communities had only just agreed on a joint communiqué allowing for the resumption of negotiations to solve the Cyprus problem that had petered out after March 2012. The agreement was reached some five months after the initially planned date, and the manner in which the sovereignty of a putative united Cyprus and its organs would be described was the primary obstacle to agreeing on a final text for the joint communiqué.²⁹

Thus, the discovery of natural gas, far from being a catalyst for a solution of the Cyprus problem and therefore for improved Turkey-EU relations, has to date proven to be a stumbling block. It has exacerbated the sovereignty dispute, and hence it is no surprise that sovereignty became the key sticking point in the drafting of the joint communiqué. Moreover, natural gas has introduced an additional strain into Turkey-EU relations because of the discord between them regarding the legality of offshore exploration by the (*de facto* Greek Cypriot) RoC.³⁰

Why Cyprus Gas Alone Is Not a Strong Enough Incentive

Notwithstanding the problems it raises over the difficult sovereignty question, could the discovery of natural gas offshore Cyprus provide a strong enough *commercial* incentive for the resolution of the Cyprus problem, which would, in turn, improve Turkey's relations with the EU? The argument, crudely put, is that Cyprus (both Greek Cypriots and Turkish Cypriots) needs cash and Turkey needs gas. Following the

26 See Turkish Ministry of Foreign Affairs, *Press Statement On the Continental Shelf Delimitation Agreement Signed Between Turkey and the TRNC*, No. 216, 21 September 2011, http://www.mfa.gov.tr/no_-216_-21-september-2011_-press-statement-on-the-continental-shelf-delimitation-agreement-signed-between-turkey-and-the-trnc.en.mfa.

27 Turkish Ministry of Foreign Affairs, *Press Release Regarding the International Tender for Off-shore Hydrocarbon Exploration and Exploitation Opened by the Greek Cypriot Administration*, No. 140, 18 May 2012, http://www.mfa.gov.tr/no_-140_-18-may-2012_-press-release-regarding-the-international-tender-for-off_shore-hydrocarbon-exploration-and-exploitation-opened-by-the-greek-cypriot-administration.en.mfa. For example, on 13 November 2008, a Turkish warship intercepted two foreign-flagged exploratory ships conducting surveys on behalf of the RoC in the relevant areas. See RoC Press and Information Office, "Turkish Foreign Ministry over the oil exploration by the Republic of Cyprus", *Turkish Press and Other Media*, No. 226/08 (25 November 2008), <http://www.hri.org/news/cyprus/tcp/2008/08-11-25.tcp.html#03>. Similar incidences occurred at other times, including during June-July 2013. See "Italian vessel was harassed by Turkish navy off Paphos", in *Cyprus Mail*, 31 July 2013, <http://cyprus-mail.com/?p=6831>.

28 See Elias Hazou, "Turkey carries out seismic surveys north of the island", in *Cyprus Mail*, 27 November 2013, <http://cyprus-mail.com/?p=13949>; and "Barbaros also at Akamas" (in Greek), in *Phileletheros*, 23 December 2013.

29 Stefanos Evripidou, "Little hope of breaking impasse at the moment", in *Cyprus Mail*, 13 December 2013, <http://cyprus-mail.com/?p=15045>.

30 See, for example, the Council conclusions on enlargement and stabilisation and association process, 5 December 2011, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/genaff/126577.pdf.

banking crisis in March 2013, the troika of international lenders expects the debt/GDP ratio of the RoC to peak at 126.2% of GDP in 2015.³¹ This will be nearly 1.5 times its ratio in 2012 and will take many years to be brought back to pre-crisis levels. In the north, Turkey spends around 500 million Turkish liras (170 million euros) each year subsidizing the public-sector payroll, which accumulates as unpaid debt, and around 300 million Turkish liras (100 million euros) paying for infrastructure projects (which is counted as aid).³² As a result of the loans, we estimate that TRNC debt to Turkey (excluding any accumulated interest, which appears not to be counted) had reached 62% of GDP by 2010, or more than 80% of GDP if an assumed interest rate of 6% is added each year. Moreover, as a result of the Cyprus problem, the TRNC is not integrated with international markets,³³ which further holds back its economic development potential. At the same time, Turkey is a very energy-hungry market, especially with regard to gas, which currently has the largest share (32% in 2012) in the country's energy mix.³⁴ Turkey's natural gas demand was 46.3 bcm in 2012³⁵ and is expected to reach 65.2 bcm in 2023.³⁶ In 2011 the country's total natural gas imports constituted 98% of its total demand.³⁷ Diversifying sources of its gas supplies is an important energy policy priority for Turkey.³⁸

Thus, if Cyprus could benefit from gas exports and Turkey could benefit from gas imports, then maybe there are incentives to solve the Cyprus problem. Indeed, since the joint communiqué was concluded in February there has been much speculation that gas might have formed part of a wider deal that made it possible. However, even as negotiations restart, there will remain one obstacle to this potential catalyst, namely that each side perceives the other side's need to be greater than its own and hence presumes that the other side has a greater need to solve the Cyprus problem (i.e., to compromise at the negotiations).

As can be gathered from official statements and media analyses, Turkey and the Turkish Cypriots appear to think roughly as follows. The Greek Cypriots, because of the dire state of their economy, need revenues from gas as quickly as possible. The only way that this can happen, so the Turkish argument goes, is by exporting the gas to Turkey via a pipeline, which experts assert is also the most commercially feasible option for monetising Cyprus gas. The fact that a solution in Cyprus is a prerequisite for this should induce the Greek Cypriots to be more flexible at the negotiations.³⁹

However, the Greek Cypriots' determination so far to consider only those gas export options that exclude Turkey makes this reasoning questionable. In particular, the Greek Cypriots have been committed since mid-2012 to building a liquefied natural gas (LNG) export facility at Vassilikos on the island's south coast. There are a number of reasons

for the focus on LNG. First, LNG can be sold to Asia, where demand is expected to grow much faster than in Europe.⁴⁰ Second, LNG, together with the Vitol oil terminal that is currently under construction and due to be completed in July 2014,⁴¹ will bolster the RoC's position as a regional hub, which has related benefits for security. A likely third reason is that Greek Cypriots are probably very wary of depending solely on a route via Turkey for their most promising export.⁴²

The grand plan is that this plant would process not only Cyprus gas but also potentially gas from Israel and Lebanon, thus "making it possible to create a world class LNG hub at Vasilikos".⁴³ Indeed, despite the downward adjustment in early October 2013 of the estimated size of the Aphrodite field in Block 12, which means more gas needs to be found to make the LNG plant commercially viable,⁴⁴ plans remain unchanged.⁴⁵

This may be partly because Greek Cypriot politicians, and in some cases energy officials, have raised very high and probably unrealistic expectations about potential gas revenues.⁴⁶ Moreover, Mr Lakkotrypīs has emphasized that the government is not relying on natural gas to get it out of the economic crisis,⁴⁷ which suggests that the government is not in desperate need of a gas deal with Turkey.

Consequently, the Greek Cypriots believe that the Turkish Cypriots should have the stronger incentive to solve the Cyprus problem because without a solution they cannot have their share of the gas revenues. Similarly, they think that Turkey, being eager to find alternative cheap supplies, wants the Cyprus gas, which it can access only if there is a solution in Cyprus. From the Greek Cypriot perspective, this fact should make Turkey more willing to agree to the compromises necessary for a solution.⁴⁸

As with Turkish and Turkish Cypriot assessments of the Greek Cypriot interests, this Greek Cypriot assessment of the interests of Turkey and Turkish Cypriots is not compatible with what actually appears to

31 IMF's *Second Cyprus Review*, 23 December 2013, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=41165>.

32 Based on 2010 figures (latest available) from TRNC State Planning Organisation, *Economic and Social Indicators*, <http://www.devplan.org>.

33 Mainly as a result of the European Court of Justice ruling, Case C-432/92, *The Queen v. Minister of Agriculture, Fisheries and Food, ex parte S. P. Anastasiou (Pissouri) Ltd and others*, 5 July 1994, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=celex:61992cj0432:en:not>.

34 See Turkish Ministry of Energy and Natural Resources, *2014 Yılı bütçe sunumu* [Presentation of the Ministry's budget for the year 2014], 14 November 2013, p. 12, http://www.enerji.gov.tr/yayinlar_raporlar/2014_Genel_Kurul_Konusmasi.pdf.

35 BP, *Statistical Review of World Energy 2013*, June 2013, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf.

36 See Turkish Ministry of Energy and Natural Resources, *2014 Yılı bütçe sunumu* [Presentation of the Ministry's budget for the year 2014], cit., p. 13.

37 See International Energy Agency, *Oil & Gas Emergency Policy - Turkey 2013 Update*, 2013, p. 14, <http://www.iea.org/publications/freepublications/publication/name,38110,en.html>.

38 See Turkish Ministry of Energy and Natural Resources, *2014 Yılı bütçe sunumu* [Presentation of the Ministry's budget for the year 2014], cit., p. 2.

39 See, for example, "Davutoğlu: Greek Cyprus dependent on Turkey to sell gas", in *Today's Zaman*, 28 March 2013, <http://www.todayszaman.com/news-311001-.html>; Deniz Arslan, "Natural gas a likely incentive for Cyprus solution", in *Today's Zaman*, 22 November 2013, <http://www.todayszaman.com/news-332175-.html>; and "Greek Cypriots realize it's time to start benefiting from peace", in *Hürriyet Daily News*, 23 December 2013, <http://www.hurriyetdailynews.com/?pageID=517&nID=59952>.

40 "IEA Sees 50% Gas Demand Increase by 2035", in *Natural Gas Europe*, 29 November 2013, <http://www.naturalgaseurope.com/iea-natural-gas-demand-increase-2035>.

41 VTTI, *VTT Vasiliko, Cyprus*, 2013, http://www.vtti.com/terminals_vasiliko.php.

42 Evidence for this comes from communications on Twitter by one of the authors. The general tone of the responses is that "Turkey the occupier" cannot be trusted in business. As one tweeter put it, "Imagine I illegally occupy and claim half of your home and at the same time offer you a business deal based on trust". Christos Sava (ChristosSava1), 25 September 2013, 3:11 a.m.

43 See Charles Ellinas, *Cyprus on the Mend? Cyprus Energy Reserves*, cit.

44 Elias Hazou, "Gas plans have precedence over oil for Noble", in *Cyprus Mail*, 19 December 2013, <http://cyprus-mail.com/?p=15434>. See also Fiona Mullen, presentation at *The Economist Ninth Cyprus Summit*, Nicosia, 25 November 2013, http://www.hazliseconomist.com/en/event/Cyprus_on_the_mend/Speeches.

45 Stefanos Evripidou, "Experts agree that an LNG plant is best option for Cyprus", in *Cyprus Mail*, 23 November 2013, <http://cyprus-mail.com/?p=13698>.

46 As Energy Service Director, Solon Kassinis was cited as saying that the reserves were worth 300 billion euros, which many assume means the value of the gas to the government. See "Eastern Mediterranean region may play a decisive role in the supply of energy to Europe", in *Financial Mirror*, 7 December 2012, <http://www.financialmirror.com/news-details.php?nid=28311>. These estimates have been questioned elsewhere: Kevin Allison and Henning Gloystein, "Analysis: Cypriot gas no fix for country's funding gap", in *Reuters*, 22 March 2013, <http://www.reuters.com/article/2013/03/22/us-eurozone-cyprus-gas-idUSBRE92L11H20130322>.

47 Answers to questions at *The Economist Ninth Cyprus Summit*, 25 November 2013. See Fiona Mullen (FionaMullenCY), "Commerce Minister Lakkotrypīs: 'We do not depend on hydrocarbons to try and come back to economic growth and development' says", 25 November 2013, 5:26 a.m., Tweet.

48 As a former Greek Cypriot finance minister and member of the Working Group on Economic Matters in the Cyprus talks put it, "[Sharing of gas wealth] should be a catalyst to finding a solution ... [Gas] should be a strong incentive to redress somewhat the current balance of power that has Turkey being extremely powerful and therefore not willing to compromise". See p. 90 in Elias Hazou, "Offshore Hydrocarbons and Wealth Distribution in Cyprus: Interviews with Michael Sarris and Mustafa Besim", in Hubert Faustmann, Ayla Gürel and Gregory M. Reichberg (eds.), *Cyprus Offshore Hydrocarbons: Regional Politics and Wealth Distribution*, in *PRIO Cyprus Centre Reports*, No. 1/2012, p. 87-96, <http://www.prio.no/Publications/Publication/?x=7237>. See also: "Government: Natural gas an incentive for Cyprus settlement", in *Cyprus News Agency: News in English*, 20 December 2011, http://www.hri.org/news/cyprus/cna/2011/11-12-20_1.cna.html#01; Ioannis Kasoulides, "Geopolitics in the Eastern Mediterranean: A Cypriot Perspective", cit.; and Cyprus Embassy in Washington, *Energy shifts Cyprus' foreign policy character, says FM Kasoulides*, 6 December 2013, <http://www.cyprusembassy.net/home/index.php?module=article&id=4860>.

concern the latter. In fact, Turkish Cypriots do not feel “they have to give anything in order to get what rightfully belongs to them” – as “Turkish Cypriots have equal rights in natural resources around the island”.⁴⁹ Indeed, they have actually acted to assert these rights – and hence, as they see it, retain their bargaining power at the negotiations – by giving exploration licences to TPAO in waters around the island. Turkey, for its part, though not completely indifferent to Cyprus gas, appears to find the amount discovered so far not large enough to be of significant interest,⁵⁰ and is pursuing other closer alternatives, e.g., in Iraq, especially northern Iraq.⁵¹

The conclusion is that, given the parties’ perspectives, incentives stemming from Cyprus gas alone do not have the force to bring them closer to solving the Cyprus problem.

Can Gas from Cyprus and Israel Provide the Motivation?

If gas offshore Cyprus is not large enough in volumes to be attractive to Turkey, would the addition of Israeli gas make a difference? In other words, could the benefits of cooperation over Eastern Mediterranean gas, as opposed to just Cypriot gas, induce the parties to resolve the Cyprus problem?⁵² Israel certainly has more discovered natural gas resources than Cyprus. The estimated amount of gas in its Leviathan field is around four times larger than the estimates to date for Cyprus’ Block 12. Israel also has interests in trilateral cooperation involving an Israel-Turkey pipeline based on Israeli gas and an LNG plant in Cyprus based on Cypriot and Israeli gas. It is attractive to Israel because in this way Israel will diversify its export routes and hence avoid “putting all its eggs in one basket”.⁵³ Officials from both Israel and Turkey have promoted the idea and the Israel-Turkey pipeline for economic as well as political reasons.⁵⁴ Such a pipeline fits in with Israel’s strategy of exploring regional markets first before venturing further afield and is one of the most cost-effective export options for the Leviathan field mooted by the Israeli government and the Leviathan partners.⁵⁵ It offers Israel a link to the largest – and still growing – gas market in the region and the possibility of accessing European markets through Turkey. This could potentially bolster Israel’s relations with Turkey and the EU. Also, Israel is interested in LNG exports to Europe and East Asia, but, because of environmentalists’ objections and security concerns, it has difficulty finding a coastal location in Israel for an LNG plant. Using the Greek Cypriots’ planned LNG terminal is a practical way around this problem given the short distance between Israel’s offshore fields and its newfound friendship with the Greek Cypriots (other possibilities also under consideration are a floating LNG plant and the use of Egypt’s currently underused LNG facilities).

49 Source: a former Turkish Cypriot negotiator.

50 This is based on reports by Turkish academics and experts at three recent conferences held under the Chatham House rule (in the UK and Cyprus) and attended by the authors.

51 Orhan Coskun and Humeyra Pamuk, “Exclusive: Turkey, Iraqi Kurdistan ink landmark energy contracts”, in *Reuters*, 29 November 2013, <http://www.reuters.com/article/2013/11/29/us-turkey-iraq-oil-idUSBRE9AS0BO20131129>.

52 Cooperation among Turkey, Israel and Cyprus in advance of a solution appears unachievable. Satisfying Turkey’s demand for gas before a solution would, in Greek Cypriot eyes, remove one of Turkey’s key incentives for solving the Cyprus problem. Indeed, RoC Foreign Minister Kasoulides has said that there will be no Israel-Turkey gas pipeline through Cyprus’ EEZ in advance of a solution. See Ioannis Kasoulides, “Geopolitics in the Eastern Mediterranean: A Cypriot Perspective”, cit.

53 Sharon Udasin, “Israel must not put all gas export eggs in one basket, industry expert tells Post”, in *The Jerusalem Post*, 18 November 2013, <http://www.jpost.com/Article.aspx?id=332129>.

54 Amiram Barkat, “Turkish official proposes gas pipeline from Israel”, in *Globes*, 21 November 2012, <http://www.globes.co.il/en/article-1000800189>; Amiram Barkat, “Turkey could be anchor customer for Israeli gas”, in *Globes*, 29 January 2013, <http://www.globes.co.il/en/article-1000818049>; Sevil Erkuş, “Israel sees ‘Med-Streams’ in service of regional diplomacy”, in *Hürriyet Daily News*, 12 April 2013, <http://www.hurriyetdailynews.com/?pageID=238&nid=44766>; Turkish Presidency, *President Gül Delivers Speech at Economy and Energy Summit*, cit.

55 “Changing Tides for East Med Natural Gas”, in *Natural Gas Europe*, 10 December 2013, <http://www.naturalgaseurope.com/eastern-mediterranean-natural-gas-regional-politics>; Sharon Udasin, “Israel must not put all gas export eggs in one basket...”, cit.

Various suggestions have been made for gas cooperation among Israel, Cyprus and Turkey, all based on the RoC agreeing to an Israel-Turkey pipeline running through its EEZ.⁵⁶ In the following we shall consider two of these suggestions.

In the first variant, Israel buys gas from the RoC in return for the RoC granting permission for the use of its EEZ. This arrangement would generate revenues for the RoC and liberate more Israeli gas to sell to Turkey, since under Israeli government rules only 40% of Israeli gas may be exported.⁵⁷

The second variant is what might be termed the “pipeline plus LNG promise”; that is, in return for agreeing to a pipeline to Turkey, Israel supplies natural gas to the RoC. This would mean that, together with gas in Block 12, the RoC would now have enough gas volumes to be able to secure financing for an LNG plant.

Might either of these options help Turkey-EU relations by giving the relevant parties sufficient incentives to solve the Cyprus problem?

In the first option, Turkey increases and diversifies its gas supplies, Greek Cypriots receive gas revenues but without depending (directly) on Turkey, and Israel secures a lucrative export market. However, there are two reasons why the economic gains for the Greek Cypriots are unlikely to be high enough in this option. First, it pushes their strategic goal of building an LNG plant further away, since selling gas to Israel will reduce the already insufficient volumes of Cyprus gas available to make that LNG plant viable. Second, it involves political risk over that which the Greek Cypriots cannot control, namely Israeli-Turkish relations. If these break down and Israel stops selling gas to Turkey, Israel might no longer want gas from Cyprus.

The second option, in which Israel supplies gas for an LNG plant in Cyprus, would be more attractive to the Greek Cypriots. Given the uncertainties about the future direction of gas prices, timing is critical for the viability of an LNG plant.⁵⁸ This option would allow them to build an LNG plant faster and hence would be more appealing than the first option. It also would reduce one of the risks in the first option, namely the risk of Israel-Turkey relations going sour. If that occurred, Israel could divert additional export volumes to the LNG plant. In addition, the Greek Cypriots would not depend on Turkey for gas exports. Given all this, the “pipeline plus LNG promise” could be a strong incentive for the Greek Cypriots to conclude the negotiations for a settlement of the Cyprus problem quickly.

For Turkey, it would also be the prize of a Cyprus settlement, along with Turkey mending its EU relations. Indeed, there are signs that Turkey might not object to such an option. In May 2013 Turkey’s President, Abdullah Gül, spoke about Turkey’s readiness “to contribute to any constructive project” for energy cooperation among [both parts of] Cyprus, Israel and Turkey.⁵⁹ As for Israel, it would acquire a large Turkish gas market, potentially with a strategically important link to the EU,⁶⁰ and it would diversify its exports by having both a pipeline and an LNG plant.

Leaving aside the uneven course of Turkey-Israel relations, there is a serious caveat to this option, however. Given Israel’s security concerns, it is not at all clear that Israel will ever agree to export gas via a land-

56 See, for example, Hugh Pope, “Israel’s plan to bring Cyprus and Turkey together”, in ICG blog *Solving the EU-Turkey-Cyprus Triangle*, 17 September 2013, <http://www.crisisgroupblogs.org/eu-turkey-cyprus/?p=369>; and Matthew J. Bryza, “Eastern Mediterranean Natural Gas: Potential for Historic Breakthroughs Among Israel, Turkey, and Cyprus”, in *Turkish Policy Quarterly*, Vol. 12, No. 3 (Fall 2013), http://www.turkishpolicy.com/dosyalar/files/vol_12-no_3-bryza.pdf.

57 Yifa Yaakov, “High Court gives green light to gas export”, in *The Times of Israel*, 21 October 2013, <http://toi.sr/1a2FKou>.

58 Charles Ellinas, *Cyprus on the Mend? Cyprus Energy Reserves*, cit.

59 Ergin Hava, “Ankara ‘closer’ to joint energy projects with Israel, Greek Cyprus”, in *Today’s Zaman*, 10 May 2013, <http://www.todayszaman.com/news-315092-.html>.

60 Amiram Barkat, “Pipeline to Turkey or LNG to China?”, in *Globes*, 19 June 2013, <http://www.globes.co.il/en/article-1000854063>.

based LNG facility in another country.⁶¹ Recent suggestions in the media that the island of Cyprus has been home to training camps for Hezbollah⁶² will make Israel even less keen on this option. It is perhaps for this reason that the notion of a floating LNG (FLNG) plant, which would presumably be easier for Israel's formidable air force to defend than a land-based LNG plant, appears to be gaining ground.⁶³ FLNG is a new technology, meaning that the equipment is likely to be more expensive than land-based LNG, but lately there have been suggestions that in certain circumstances it could be more viable than LNG.⁶⁴ If Cyprus were able to share FLNG production facilities, this might still be an attractive option for Greek Cypriots, but it would not be quite as attractive as a land-based LNG plant that would give a greater boost to Cyprus' role as a regional hub.

There is also a potential spoiler, namely the possibility of Israel deciding to supply gas to Turkey via a compressed natural gas (CNG) ship⁶⁵ instead of a pipeline.⁶⁶ This scenario, which does not require a Cyprus settlement, would not provide any incentives to solve the Cyprus problem and therefore would not have any impact on Turkey-EU relations.

Will Recent Developments Change the Parties' Calculations?

Despite the abovementioned uncertainties surrounding the "pipeline plus LNG" option, there are some signs that Greek Cypriots may be warming more generally to the idea of post-settlement gas cooperation with Turkey. Speaking at an Oil and Gas Association event on 5 December 2013, RoC Foreign Minister Ioannis Kasoulides is reported to have said that the government's long-term plans for hydrocarbons include Turkey. In December 2013, Commerce, Industry and Tourism Minister George Lakkotrypis was more specific, saying that he ruled out a pipeline in advance of a solution, but that it could be an option after a settlement of the Cyprus problem.⁶⁷

Willingness to consider gas cooperation with Turkey may be related to Noble Energy's downward revision in October 2013 of its estimate for natural gas discovered in Block 12, from a mean of 7 tcf to a mean of 5 tcf. Officials have begun to admit that this puts the financing of an LNG plant beyond reach until more gas volumes are found.⁶⁸ As regards

the value of natural gas to the government, Minister Lakkotrypis has also been notably careful about making predictions, referring, in connection with the latest revised average estimate for the gas at Aphrodite, to "a net profit for Cyprus of between US\$12 billion to US\$18 billion."⁶⁹ Until the announcement of the revised estimates, the RoC government's official line had been that LNG might be produced by 2018 or 2019. Now, industry experts do not expect that to happen before 2021.⁷⁰

Similarly, recent events in Turkey may increase Turkey's need for cheaper gas supplies and therefore its incentive to solve the Cyprus problem. As a result of the political crisis that started to engulf Turkey in December 2013, the Turkish lira hit a new record low against the dollar on 2 January 2014.⁷¹ A weak lira will lead to a significant rise in the price of imported energy, which, in turn, will push up the already large current-account deficit and could lead to a serious balance-of-payments crisis if international markets stop lending.⁷² Moreover, despite assertions that current Cyprus gas volumes are not large enough to be of interest, even Cyprus gas alone could have supplied 15% of Turkey's annual gas consumption in 2012.⁷³

Finally, there may also be new incentives for Israel to choose the "pipeline plus LNG" option. Analysts at Deutsche Bank are reported to have said that sending the gas via pipeline would produce greater returns than building an LNG plant.⁷⁴ However, abandoning an LNG plant altogether carries the risk of losing an experienced partner, namely the Australian company Woodside Petroleum. In interviews with the press in December 2013, Woodside showed clear frustration with Israel's delay in finalizing export options and hinted that it might pull out of its investment in Leviathan, saying that there needed to be "a compelling value case,"⁷⁵ although it has since signed a non-binding memorandum of understanding with the Leviathan partners for a stake in the Leviathan field.⁷⁶

Conclusion

In this paper we have examined whether the discovery of natural gas in the Eastern Mediterranean Sea, specifically offshore Cyprus and Israel, can revitalize the relationship between Turkey and the EU. We have argued that to date, contrary to expectations, gas found offshore Cyprus has in fact acted as an impediment to any significant improvement in Turkey-EU relations. This is because any significant improvement in Turkey-EU relations depends on a solution to the Cyprus problem, and natural gas has made such a solution more difficult by deepening the parties' divisions over sovereignty.

Yet, there is a way in which the gas discoveries in the Eastern Mediterranean could conceivably help Turkey-EU relations, namely a gas-cooperation scenario that offers strong enough incentives for all parties to solve the Cyprus problem. Out of the various ideas that have been proposed, the "pipeline plus LNG" option has the most promise. A pipeline plus a land-based LNG plant in Vasilikos would be the most attractive arrangement for Greek Cypriots, although they might have

61 The Zemach Committee policy report recommended "an absolute preference for the export of Israeli natural gas from an export facility (marine or on land) in an area under Israeli control (including in Israel's exclusive economic zone". Israel, *The Recommendations of the Inter-Ministerial Committee to Examine the Government's Policy Regarding Natural Gas in Israel: Executive Summary*, September 2012, <http://energy.gov.il/English/Subjects/Natural%20Gas/Pages/GxmsMniNGPoliciesIsrael.aspx>.

62 "Hezbollah fighters train in Cyprus, claims report", in *World Bulletin*, 28 December 2013, <http://www.worldbulletin.net/?aType=haber&ArticleID=125867>.

63 Amiram Barkat, "All at sea", in *Globes*, 4 December 2013, <http://www.globes.co.il/en/article-1000899328>.

64 Energy economist Amit Mor, CEO and owner of ECO Energy Ltd., said via email correspondence, "In the long run it can turn out that FLNG could be a most effective alternative to develop LNG liquefaction plants. FLNG could also be the preferred option in cases of developing relatively small stranded gas reserve sources or when technically or politically onshore LNG schemes are not viable".

65 The technology has not yet been commercialized, but the Coselle ship solution offered by SeaNG has been tested and approved for construction by the American Bureau of Shipping (ABS), while the ship design has also been approved for construction. Source: personal correspondence with SeaNG staff.

66 This does not mean that Cyprus and Israel will not continue (separately or together) to pursue an LNG or FLNG plant. Since CNG can only supply local markets, LNG would remain desirable for both Israel and Cyprus in the long term.

67 Interview with George Lakkotrypis (in Greek), in *Kathimerini*, 23 December 2013, <http://www.kathimerini.com.cy/index.php?pageaction=k&modid=1&artid=15782>. If a pipeline to Turkey is still a serious option for Cyprus gas exports - albeit after a Cyprus settlement - the RoC could be said to have an interest in lifting its objection to the opening of the energy chapter in Turkey's EU accession talks. Harmonisation with the energy acquis would make Turkey's domestic market and regulatory framework more efficient and transparent, thus rendering it a more reliable prospective partner for gas cooperation. However, under the current political circumstances it would be difficult to persuade the Greek Cypriots to take this view, except perhaps as part of a "confidence building measures" package that includes a substantial offer to them, e.g., the return of the fenced-off city of Varosha. See RoC Press and Information Office, *Meeting of the Minister of Foreign Affairs with the UN Secretary-General*, 9 May 2013, <http://www.moi.gov.cy/moi/pio/pio.nsf/All/D58ABC5F257572A09C2257B66003E1E54>.

68 See *ibid.* and Charles Ellinas, *Cyprus on the Mend? Cyprus Energy Reserves*, cit.

69 Poly Pantelides, "Noble: Cyprus' gas world class", in *Cyprus Mail*, 4 October 2013, <http://cyprus-mail.com/?p=10529>.

70 Elias Hazou, "Foreign experts suggest LNG plant be in private hands", in *Cyprus Mail*, 12 November 2013, <http://cyprus-mail.com/?p=12897>. See also Charles Ellinas, *Cyprus on the Mend? Cyprus Energy Reserves*, cit.

71 Daniel Dombey and Delphine Strauss, "Turkish lira hits all time low amid corruption probe", in FT blog *beyondbrics*, 2 January 2014, <http://blogs.ft.com/beyondbrics/2014/01/02/turkish-lira-hits-all-time-low-amid-corruptionprobe>.

72 Andrew Torchia, "Analysis: Economy becomes liability for Turkey's scandal-hit government", in *Reuters*, 3 January 2014, <http://www.reuters.com/article/2014/01/03/us-turkey-corruption-economy-analysis-idUSBREA020GT20140103>.

73 The current estimate in Block 12 is 140 bcm. If one divides that by a typical supply period of 20 years, it represents 15% of Turkey's gas consumption in 2012, which was 46.3 bcm.

74 James Paton, "Woodside Sees Israel Deal Alternatives With Decision in 2014", in *Bloomberg*, 10 December 2013, <http://bloom.bg/1btbpxy>.

75 Jonathan Ferziger, "Israel Gas Riddle Has Woodside, Gazprom Hanging", in *Bloomberg*, 30 December 2013, <http://bloom.bg/1dNR3PJ>.

76 "Woodside closes in on entry to Leviathan gas project offshore Israel", in *Offshore*, 7 February 2014, <http://fw.to/l658NCY>.

to settle for a pipeline plus an FLNG plant shared with Israel. Either way, the “pipeline plus LNG/FLNG” option offers Turkey gas supply that should be cheaper than some of its current options; it offers Israel diversity of gas exports and geopolitical benefits; and it offers Greek Cypriots the opportunity to build the LNG plant they desire faster than would otherwise be the case, and without having to depend on Turkey as an export market. While this option is also dependent on further improvement in Turkey-Israel relations as well as a final

decision by Israel on its export options, it might be evolving into a more attractive option for all players in light of recent developments: lower estimates in Block 12, a collapsing Turkish lira and pressure from foreign companies on Israel to finalize its export plans.

Whether or not these calculations will encourage the parties to push for a Cyprus solution, or whether new evolving uncertainties will simply make them more risk-averse, remains to be seen.