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From Findings to Market: Perspectives and Challenges for the Development of Gas Resources in the East Med

by Margherita Bianchi

GLOBAL TURKEY IN EUROPE

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IPC | ISTANBUL POLICY CENTER SABANCI UNIVERSITY STIFTUNG MERCATOR INITIATIVE

ABSTRACT

Within the framework of the Global Turkey in Europe (GTE) project, IAI organised a workshop in Nicosia aimed at analysing the energy dynamics of the Eastern Mediterranean. The workshop, organised in collaboration with the Istanbul Policy Center (IPC) and Stiftung Mercator and with the participation of the PRIO Cyprus Centre, opened with a panel on the geopolitical and security developments of the region, where the Cyprus issue and the tensions between Turkey and Cyprus remain very difficult to solve. The dynamics and opportunities deriving from the energy sector, reawakening the political and industrial interest on an increasingly strategic region, were later on assessed. If on the one hand the gas identified in Cypriot, Egyptian and Levant waters in the last decade could support the economic development of the area and the decarbonisation of its energy system, on the other many geopolitical and industrial obstacles remain. The panellists put some potential options on the table and discussed them with the participants.

Eastern Mediterranean | *Turkey* | *Cyprus* | *Israel* | *Egypt* | *Natural gas* | *Pipelines*

keywords

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Introduction

The Global Turkey in Europe (GTE) project established a platform to discuss and analyse the rapid transformation of Turkey in a European and global context. Launched in 2012 by the Istituto Affari Internazionali (IAI) in collaboration with the Istanbul Policy Centre (IPC) and Stiftung Mercator, GTE has been focusing on specific aspects of EU–Turkey relations, covering migration, security, economics, energy and civil society. Now in its fifth cycle, the project takes a more comprehensive look at all pillars of this dynamic.

The latest GTE workshop convened in Nicosia in July 2019 aimed at discussing the feasibility and options for taking to the market the recently discovered gas offshore the Eastern Mediterranean, particularly in Cypriot and Egyptian waters. The renewed political and industrial interest in the region is indeed still hindered by a number of old and new obstacles, both geopolitical and industrial in nature. The workshop examined these challenges and discussed the feasibility of exploiting this gas for both domestic and export purposes, debating options to shape a positive agenda for the whole area, which necessarily includes Turkey.

Nona Mikhelidze (Head of the Eastern Europe and Eurasia Programme at IAI), Ahmed Evin (Senior Scholar at the Istanbul Policy Center) and Harry Tzimitras (Director of the PRIO Cyprus Centre) greeted participants at the Home for Cooperation, within the UN Buffer Zone in Nicosia. The workshop welcomed participants from academia, think tanks and EU institutions, as well as government officials, political analysts and experts.

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Report of the seminar "From Findings to Market - Perspectives and Challenges for the Development of Gas Resources in the East Med", organised in Nicosia on 1 July 2019 by the Istituto Affari Internazionali (IAI), Istanbul Policy Center (IPC) and Stiftung Mercator under the Global Turkey in Europe V programme.

Session 1 – Geopolitical and security developments in the broader Eastern Mediterranean region: a critical overview

The first session started with a presentation on main geopolitical and security dynamics in the East Med region by Harry Tzimitras and Zenonas Tziarras (respectively Director and Researcher, PRIO Cyprus Centre).

This is an area affected by numerous geopolitical hotspots, from Syria to tensions between Turkey and Cyprus. At the global level, together with a stronger assertiveness of new powers, in recent times there has been a perceivable reduction of engagement on the part of the United States in a number of areas, including the MENA region. These dynamics partly explain the "power vacuum" in the Eastern Mediterranean.

Cyprus was identified as one of the regional arenas where different fields of interest clash between the western and the eastern world and in particular between Russia and the US, as well as being a card in the hand of the US vis-à-vis Turkey. As a matter of fact the US has put pressure on Cyprus to counter the Russian presence and influence on the island, where 93 per cent of Greek Cypriots see Russia as the natural ally.

The Cyprus problem is considered the strongest obstacle to the political and economic development of the area, being at the same time the most difficult impasse to resolve: after the failing Crans-Montana framework, uncertainty dominates future scenarios. First of all panellists considered that nothing can be taken for granted; secondly, Turkey has made clear that this was the last opportunity; thirdly, the Republic of Cyprus (RoC) faced and still faces some internal and external problems, including being blamed by the international community for the failure of negotiations. What's more, the EU is not able to deliver a unified approach on the crisis, as every European state has its own agenda when it comes to the area and to sanctions. Observing the issue through the energy lens, the lack of European coherence appears even clearer: Germany for example could block the EastMed Pipeline or similar solutions because it wants to keep Russia engaged.

The panellists suggested that often the Cyprus problem has been read through the wrong (and frequently too optimistic) lens, and proposed to re-evaluate the peculiar Cypriot situation considering the "island mentality", that is to say:

- consider that the smaller the state, the greater the need for realism and pragmatism;
- consider the sense of urgency: time works against a solution to the island's situation – differently from what many commentators say;
- avoid taking things for granted;
- deconstruct the uniqueness of disputes;
- reconsider (and lower) expectations – especially when it comes to energy developments.

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Harry Tzimitras (left) and Zenonas Tziarras (right) provide an overview of main geopolitical challenges in the Eastern Mediterranean to workshop participants.

Finally, the panellists explained the difficulty of convening the two parties of the Cyprus problem in a constructive way. They considered dynamics and initiatives carried out at the domestic and international level, as well as the different priorities of international powers to expand their arc of projection in the region. The regionalisation of the issue is considered a very difficult path to put in place not solely for the Turkish–Greek–Cypriot relationship, but also due to the many bilateral tensions in the area (Israel–Lebanon, Israel–Gaza), which were later assessed under the "energy" lens by Nicolò Sartori and Margherita Bianchi.

Session 2 – Expert-group discussion on "From findings to market: perspective and challenges for the development of gas resources in the East Med"

Mia Forbes Pirie (the Policy Partner) moderated the afternoon panel of the workshop, a discussion focussing on the energy and economic prospects for Cyprus and the Eastern Mediterranean. Nicolò Sartori and Margherita Bianchi (respectively Head of Programme and Junior Researcher of the Energy, Climate and Resources Programme of IAI) kicked off the session by presenting their paper on the feasibility and options for bringing the discovered gas to the market.[1]

Sartori and Bianchi started by providing an overview of estimated hydrocarbons in the Eastern Mediterranean and the strategic meaning of gas discoveries for both the local economic development and for Europe's energy diversification and decarbonisation strategy. They identified two distinct periods over the last decade, the first one essentially corresponding to discoveries in Israel and Cyprus in 2009–2011 (Tamar, Leviathan and Aphrodite gas fields) and the second one coinciding with more recent discoveries in Egypt and Cyprus (Zohr, Calypso, Glaucus) that confirmed the potential of the area. Panellists observed that the growing strategic importance of the area due to these resources is reflected in a renewed interest of global players such as the US, the EU and Russia, and in a number of initiatives taken at the infrastructural level, among which a Memorandum of Understanding on the EastMed Pipeline or the allocation of special statuses and grants to gas projects in the area. Among institutional initiatives, the Eastern Mediterranean Gas Forum (EMGF) held in Egypt with the participation of Greece, Israel, Jordan, Italy and

[1] Nicolò Sartori and Margherita Bianchi, "From Findings to Market: Perspectives and Challenges for the Development of Gas Resources in the East Med", in *Global Turkey in Europe Working Papers*, No. 22 (July 2019), https://www.iai.it/en/node/10671.

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the Palestinian National Authority represents an important step forward. However, important countries were excluded (such as Syria, Lebanon and, above all, Turkey), stressing the struggle to shape a common agenda at the regional level.

Margherita Bianchi (left) and Nicolò Sartori (right), panellists of the second session.

Turkey's de-alignment is indeed considered the main factor of uncertainty for the development of gas resources: from Turkey drilling in disputed waters or blocking exploration ships, to the growing tensions with the EU which raised its voice against Ankara's illegal behaviour. The geopolitical drivers hampering gas production and marketability in the area, however, go beyond the Cyprus–Turkey hotspot, and include the Israel–Lebanon clashes over deposits and maritime borders, as well as the Israel–Gaza dispute. Some signs of reconciliation are visible – resulting in the renewed interest of international companies over gas developments in Lebanon – but are definitely not sufficient.

Alongside geopolitical obstacles, the marketability of Eastern Mediterranean gas faces industrial concerns, starting from a stronger competition from expanded supply in several parts of the world (North America, Qatar, Africa, Australia, Russia) and the difficulty in competing on price. Advances in the shipping of gas in its liquefied form (LNG) have indeed provided additional instruments to exploit resources to countries holding them.

Sartori and Bianchi observed that the energy epicentre in the area is rapidly moving southwards, with an increasing importance of Egypt in the region for a number of reasons. As well as being (traditionally) a hydrocarbon producer/exporter and being politically more stable than the other countries in the area, Egypt recently speeded up its production thanks to Zohr, allowing the country to regain self-sufficiency and to restart LNG exports. What's more, Egypt has key infrastructures on its territory, starting from the LNG terminals at Idku and Damietta and, last but not least, has demonstrated its capacity to cooperate at the regional level by signing maritime demarcation agreements with partners and by setting up tables to discuss gas developments. Its strategic consolidation is to be considered a positive dynamic for the transformation of the area.

The two authors provided a number of potential solutions to transform the resource-rich area into an export region:

- First of all they suggested fostering further investments and E&P activities in the Eastern Mediterranean region in order to facilitate assessments of the real potential of the area, both for domestic consumption and for export.
- Secondly, they emphasised the need to engage Turkey in the game by promoting its participation within the institutional framework of the EMGF and by fostering a more effective cooperation through the inclusion of Ankara in the dialogue.

- Thirdly, the two authors stressed the importance of shaping a positive agenda at the local level, working to respond with gas (and RES) to local demand in the countries where gas does not play a major role and more polluting sources still dominate. Turkey and Cyprus are the most interesting cases in this sense: for instance the East Med gas could provide a more sustainable solution to the growing demand trends of the large Turkish market; for Cyprus, sustaining the gasification of the island into a single market would help respond with local and less polluting sources to its electricity needs in times of important EU decarbonisation and diversification efforts.

Main points discussed

In the discussion that followed the paper-givers' presentation, a number of issues were raised by participants and discussed with panellists.

1. A first general consideration concerned the option of keeping these resources in the ground, a very common remark that finds its *raison d'être* in decarbonisation and economic rationales. It is however to be considered that gas could help the region use less polluting sources to respond to its growing demand in the medium term. The economic viability of gas exploitation must certainly be more deeply assessed – that's why, as the Eastern Mediterranean remains so far undeveloped, according to the paper-givers further investments in E&P should be encouraged.

2. Connected to the first point, one participant suggested the creation of ad hoc financial guarantees and facilities (that were later imagined in the framework of the EMGF) as an option to support and encourage international private investments in the Eastern Mediterranean gas sector. This could indeed prove instrumental to clear up point 1 – that is to say, understanding the real potential for development and production of gas, as well as the balance between domestic demand and surplus supply for export.

3. Another participant raised doubts concerning the feasibility for Turkey to absorb a large share of the Eastern Mediterranean gas, considering that RES and nuclear are expected to steal shares from gas in the overall Turkish energy mix; that Turkey has other significant (and in a few cases cheaper) options to import gas; and that the energy mix in the country is changing in several sectors other than power generation, starting from residential and manufacturing. On the other side however, it is to be considered, according to the paper-givers, that Turkey remains the largest gas market in the area as well as being an important (and cheap) route to export resources. What's more, the country produced 37 per cent of its electricity with coal in 2018 and has put emphasis on expanding its capacity with its coal and lignite reserves. This capacity could come from more sustainable resources (gas and RES) and in this sense the East Med resources could play a role.

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