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## **Abstract**

This thesis investigates the geopolitical implications of the recent discoveries in Eastern Mediterranean. The beginning of the paper presents an analysis of the notion of energy security and provides a theoretical framework, according to which international relation theories approach energy security issues. We follow the traditional tripartite division: realism, liberalism, Marxism as this illustrates the main analytical framework in terms of international energy politics. Then, this paper focuses on gas energy and its prospects, scrutinizing the reasons why natural gas emerged as an important energy source in a carbon constrained world.

In light of the new gas discoveries, we analyze the potential conflicts and opportunities for cooperation that have been aroused. Israel, Cyprus, Turkey are key countries in this thesis. The analysis of their interactions is grounded on the neo-realistic perspective, which prioritizes the role of the power and highlights insecurity as a constant feature of international system. Finally, we discuss how recent discoveries affect the political agenda of global actors, driven by economic and security reasons and add a new perspective in the geostrategic dimension of this unstable region.



## **Abbreviations**

AGP	Arab Gas Pipeline
AKP	Adalet ve Kalkınma Partisi (Turkish) Justice and Development Party (English)
Bcf	Billion Cubic Feet
Bcm	Billion Cubic Meters
BP	British Petroleum
BSEC	Black Sea Economic Cooperation
Btu	British Thermal Unit
CNOOC	China National Offshore Oil Corporation
EEZ	Exclusive Economic Zone
EIA	Energy Information Administration
EMG	Eastern Mediterranean Gas Company
EU	European Union
FIR	Flight Information Region
FSRU	Floating Storage Regasification Unit
FSU	Former Soviet Union
GDP	Gross Domestic Product
IEA	International Energy Administration
IEC	Israel Electric Company
IGI	Interconnector Greece Italy
IOCs	International Oil Companies
ITG	Interconnector Turkey Greece
LNG	Liquefied Natural Gas
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization

PA	Palestinian Authority
PKK	Partiya Karkerên Kurdistan (Kurdish) Kurdistan Workers' Party (English)
PLO	Palestine Liberation Organization
SCO	Shangai Cooperation Organization
SOE	State Owned Company
Tcf	Trillion Cubic Feet
Tcm	Trillion Cubic Meters
TPAO	Türkiye Petrolleri Anonim Ortaklığı (Turkish) Turkish Petroleum Corporation (English)
TRNC	Turkish Republic of Northern Cyprus
UK	United Kingdom
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
UNIFIL	United Nations Interim Force in Lebanon
US	United States
USGS	United States Geological Survey
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization
WW	World War



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## 1. Introduction

Eastern Mediterranean was always an unstable region. The establishment of Israel in 1948 led to the militarization of the Middle East and created tensions with Arab states (Egypt-Lebanon). In addition, concerns over the expansion of communism attracted the attention of United States (US) and United Soviet Socialist Republics (USSR), providing political support in local minorities and increasing influence in the region. Following the end of the Cold War, Eastern Mediterranean never looked as if entering in an era of political stability and ending peace, as Francis Fukuyama wrote.<sup>1</sup>

The increasing risks and threats that stem from the region have to do not only with the geographical importance of Eastern Mediterranean, but also due to matters of energy security. After the oil crisis of 1973, the concept of energy security obtained a prominent role in international affairs. Energy interests, especially under tight international market conditions, affected the mapping of geostrategic interests. Jewish-Arab wars were straightly connected with the disruption of energy supplies and the rapid increase of the oil prices. Eastern Mediterranean threatened the international economic stability.

The fluctuation of oil prices and environmental concerns has changed significantly the global energy consumption patterns. Diversification in sources of supply, in access routes and in market players, has led natural gas to become an emerging energy resource. The displacing of coal energy with natural gas in power generation reduces the greenhouse gas emissions and encourages the role that gas can play in the future energy mix. Furthermore, the development in production of shale gas and innovations such as floating Liquefied Natural Gas (LNG)<sup>2</sup> have made potential resources large enough to meet current consumption level for about a century.

Arab Spring has shifted the global interest in Eastern Mediterranean again. The substitution of the totalitarian regimes in North Africa coincides with the deterioration of Turkish – Israeli relations. Turkey’s greater involvement in the Middle East reflected its desire to raise its prestige among Arab countries and gave the opportunity to expand its foreign policy, following the neo-ottoman strategy.<sup>3</sup> In addition, gas

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<sup>1</sup> Fukuyama, F.(1992), *“The End of History and the Last Man”*, Avon Books Inc., New York.

<sup>2</sup> Regan, T., *“First Floating LNG Plant”*, BBC News, May 22, 2011, available at: <http://www.bbc.co.uk/news/business-13465870> (accessed in 03 Dec 2012).

<sup>3</sup> Taspinar, O., *“Turkey’s Middle East Policies Between Neo-Ottomanism and Kemalism”*, Carnegie Endowment for International Peace, Washington, No 10, September 2008, pp 14-17, available at : [http://www.carnegieendowment.org/files/cmec10\\_taspinar\\_final.pdf](http://www.carnegieendowment.org/files/cmec10_taspinar_final.pdf) (accessed in 20 Sep 2012).

discoveries offshore Israel and Cyprus changed the regional balance of power and reminded that *‘energy politics are inseparable from larger security considerations, because produce new issues that undermine the status quo’*.<sup>4</sup>

Recent gas discoveries in Eastern Mediterranean present, at one and the same time, challenges and opportunities for cooperation.<sup>5</sup> On one hand, these discoveries trigger regional conflicts between states that have not demarcated their maritime borders, before the discoveries were made. On the other, gas energy functions as an incentive for cooperation between states, in order to satisfy their concerns over energy security.

This thesis concentrates on exploring the links between geopolitics and energy security in Eastern Mediterranean. Key players in this analysis are Israel, Cyprus and Turkey. Gas findings offshore Israel and Cyprus gave them access to sufficient energy resources and provide the opportunity to become energy exporters. Turkey is examined as a key transit state that has major strategic interests in the region. In addition, we discuss the increasing interest of US, Russia, European countries and China, because we consider that their policies are driven by concerns over energy security.

In this research, we use the realistic approach to analyze the interactions between key countries of Eastern Mediterranean. Particularly, we use the reinterpretation of realism in the form of “structural realism” or “neo-realism”, as John Mearsheimer theorized.<sup>6</sup> With the assumption that conflict and insecurity are constant features of the international system, we argue that offensive realism provides a powerful analytical framework that explains international energy politics.

To collect our data, we leaned on recent international articles and press, because gas discoveries are relatively recent and there is no literature. In addition, we collected the technical data from the official sites of the oil companies that participate in the exploitation of the discoveries. We also used statistical data from official organizations, especially from International Energy Agency (IEA) and US Energy Information Administration (US EIA).

The structure of this thesis is as follows: In the second chapter we explain what energy security is referring to and how it affects international security. Then, we refer

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<sup>4</sup> Blank, S., *“Turkey and Cyprus’ Gas : More Troubles Ahead in 2012”*, Turkey Analyst, Vol.5, No 1 January 2011, available at: <http://www.silkroadstudies.org/new/inside/turkey/2012/120109B.html> (accessed in 25 Sep 2012).

<sup>5</sup> Khadduri, W., *“East Mediterranean Gas: Opportunities and Challenges”*, Mediterranean Politics, Routledge, London, Vol. 17, No 1, March 2012, pp. 111-117.

<sup>6</sup> Mearsheimer, J. (2001), *“The Tragedy of Great Power Politics”*, Norton, New York.

international relations theories and we provide a theoretical framework, through which energy security issues are interpreted. In the third chapter we focus on the role of natural gas and its increasing importance in energy markets. We also examine the recent exploration activity offshore Israel and Cyprus providing relative technical information. In chapter four we explore how recent natural gas findings contribute to a) regional tensions for Turkey and Israel with littoral states and b) the formation of the energy axis between Israel-Cyprus and Greece. In chapter five, we discuss the increasing interest of global actors in Eastern Mediterranean, driven by economic and security reasons. Finally, this thesis concludes with projections about future trends and the contributions of offshore gas discoveries in regional energy security.

## 2. Energy Security and the Theoretical Framework

Energy is a key factor in the development and growth of a state. Thus, often becomes a political tool in hands of policy makers.<sup>7</sup> The meaning of energy security is twofold: it associates with the access to cheap energy for consumer countries, and the assuring of stable markets for producing countries. However, the uneven distribution of energy supplies among countries and the discoveries of energy resources trigger regional conflicts and political implications.

In this chapter we analyze the notion of energy security and its impacts on international security. We also examine how international relations deal with the conflict between countries and explain the competition for energy resources. Classic theories of international relations provide a methodological tool to approach the emerging energy issues. As such, they help explain the political rhetoric of foreign policy and they often provide arguments that can lead to effective policies.<sup>8</sup>

### 2.1. The Notion of Energy Security and its Impacts on International Security

Energy security issue has always been a fundamental problem in industrialized countries. The incessant access to energy at stable prices was a vital requirement for the stability and the economic growth.<sup>9</sup> In the twentieth century, energy resources were of major importance to military security; the invention of the internal combustion engine led Winston Churchill to convert the British Navy from coal to oil before the First World War (WW I), to ensure its '*naval superiority*';<sup>10</sup> German army failed to reach Caucasus oil fields in WW II and deprived the victory from Rommel in El Alamein.<sup>11</sup> The control of energy (oil) proved its straight influence in military operations.

In the second half of 20<sup>th</sup> century, energy was used as an economic weapon. The oil crisis of 1973 was an answer to America's decision to support Israel during Yom

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<sup>7</sup> For an analysis about the relations between energy and foreign policy, see Shaffer, B. (2009), "*Energy Politics*", University of Pennsylvania Press, Philadelphia, pp.29-46.

<sup>8</sup> Snyder, J., "*One World, Rival Theories*", Foreign Policy, Washington D.C., Nov/Dec 2004, Iss. 145, p. 53.

<sup>9</sup> Fuerth, L., "*Energy, Homeland and National Security*", in Kalincki, J.H., and Goldwyn, D.L. (2005), "*Energy & Security: Towards a New Foreign Policy Strategy*", John Hopkins University Press, Baltimore, p.411.

<sup>10</sup> Singer, C., "*Oil and Security*", Policy Analysis Brief, The Stanley Foundation, January 2008, available at: <http://www.stanleyfoundation.org/publications/pab/PAB08Singer.pdf> (accessed in 06 Aug 2012).

<sup>11</sup> Ibid.



Kippur war. It was the first time that decision makers seriously thought about the energy security issue, though short term.<sup>12</sup> Iranian revolution in 1979 led to the contract of oil production and the rise of its price. The disruption of energy supplies (in both cases, oil) was accompanied by the rapid increase of the prices and threatened the economic and national security.<sup>13</sup> The relation is obvious : on one hand, economic life is closely connected with the prices of energy supplies, a sudden raise of which trigger unemployment, inflation, and low economic growth. On the other, national security is threatened when countries depend on energy imports to secure their continued operation of their economies.

Energy security in a broad definition can be defined both from consumer's and the provider's perspective.<sup>14</sup> For consumers, energy security means the access to sufficient energy resources at reasonable prices. US, Europe, and China traditionally import energy to meet their needs. European Union (EU) for example, has a high proportion of imports concentrated among few partners; 79, 1% of the EU's imports of natural gas in 2009 came from Russia, Norway and Algeria.<sup>15</sup> The crucial role of energy demand is inevitably connected with foreign, economic and security policies.

However, the security needs of energy producers should also be considered. Energy exporting countries prefer higher prices and increasing demand. Russia, the major exporter of natural gas in European market, has invested a lot of money in infrastructure and pipeline networks to maintain its economic benefits. Infrastructure investment in Russia in 2010 reached \$111bn, an enormous increase comparing with the \$7bn spent in 1999.<sup>16</sup> Producer countries need stable markets to sell energy products and obtain domestic or foreign investments.

There is therefore a form of mutual dependence between energy consumers and energy suppliers. The interdependence in the global energy market seems to be in

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<sup>12</sup> Orttung, R. & Perovic, J., “*Energy Security*”, in Cavelty, M., and Mauer, V. (2010), “*The Routledge Handbook of Security Studies*”, Routledge, New York, p.213.

<sup>13</sup> Alhajji, A. F., and Williams, J. L., “*The Coming Energy Crisis?*” Energy and Economics Newsletters, February 03, 2003, available at : <http://www.wtrg.com/EnergyEconomist/EnergyCrisis.pdf> (accessed in 07 Aug 2012).

<sup>14</sup> Bagwat., G., “*Energy Security*” in “*The 1979 “Oil Shock:” Legacy, Lessons, and Lasting Reverberations*”, Middle East Institute Viewpoints, Washington, D.C., p.23, available at : <http://www.social-sciences-and-humanities.com/PDF/oil-shock.pdf> (accessed in 07 Aug 2012).

<sup>15</sup> “*Energy Production and Imports*”, Eurostat, European Commission, September 2011, available at : [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports) (accessed in 07 Aug 2012).

<sup>16</sup> Aris, B., “*Russia Makes Huge Investment in Transport Networks*”, Russia Now, January 04, 2012, available at : <http://www.telegraph.co.uk/sponsored/russianow/business/8989604/Russia-investment-transport-networks.html> (accessed in 28 Aug 2012).

close relation with the type of energy product. Coal and oil trade, for example, are traded on international markets. On the contrary, natural gas is supplied after bilateral commitments between consumer and supplier.<sup>17</sup> As a result, the geopolitical impacts of a disruption in the supply of natural gas are much more different than those in case of oil, because it is traded primarily on the global market.

## 2.2. International Relations Theories

International relations can offer the filter for looking to the evolving relations between the producer countries – as Russia and Middle East - and traditional consumers, as European countries and US. We follow the traditional tripartite division; realism, liberalism and Marxism, as this illustrate the main analytical frameworks with regard to international energy politics.<sup>18</sup> In this thesis we approach the geopolitical interactions that new gas discoveries in Eastern Mediterranean have created, through the neo-realistic point of view, particularly through the form of offensive realism, as we consider that it can explain the nature and underlying structures of that interaction.

### 2.2.1. Realism

Realism is considered to be the dominant school of thought in international relations, drawing its popularity from deep historical traditions of thinking about international politics.<sup>19</sup> It roots dating to the ancient Greek philosopher Thucydides (460-406 BC), Nikolo Machiavelli (1469-1527 AC), Thomas Hobbes (1588-1679 AC) and Jean Jacques Rousseau (1712-1778 AC).<sup>20</sup> Classical realism has its roots to the human nature and adopts the doctrine of “*raison d’etat*”,<sup>21</sup> in order to pursuit their interests.

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<sup>17</sup> Shaffer, B. (2009), p.34.

<sup>18</sup> Dannreuther R., “*International Relations Theories: Energy, Minerals and Conflict*”, EU Policy on Natural Resources (POLINARES) Project, University of Dundee, Working Paper No 8, September 2010, p.14, available at: [http://www.polinares.eu/docs/d1-1/polinares\\_wp1\\_ir\\_theories.pdf](http://www.polinares.eu/docs/d1-1/polinares_wp1_ir_theories.pdf) (accessed in 31 Aug 2012).

<sup>19</sup> For a realistic approach of energy security and the impacts of energy resources in International relations, see Cesnakas G., “*Energy resources in Foreign Policy: A Theoretical Approach*”, Baltic Journal of Law and Politics, Vol 3. No 1 2009, available at : <http://versita.metapress.com/content/k44uh17281h8571t/fulltext.pdf> (accessed in 01 Sep 2012). About a criticism of the realistic theory, see Jackson, R., and Sorensen, G. (eds), (1999), “*Introduction to International Relations*”, Oxford University Press, New York, pp. 96-101; Legro, J., and Moravcsik, A., “*Is Anybody Still a Realist*”, International Security, Vol. 24, No 2, Fall 1999, pp. 5-55, available at : [http://www.wcfia.harvard.edu/sites/default/files/WCFIA\\_98-14.pdf](http://www.wcfia.harvard.edu/sites/default/files/WCFIA_98-14.pdf) (accessed in 01 Sep 2012).

<sup>20</sup> Baylis, J., Smith, S., & Owens P. (eds) (2008), “*The Globalization of World Politics: An Introduction to International Relations*”, Oxford University Press, Oxford, p.92.

<sup>21</sup> It refers to the national interest, the countries goal and ambitions, often referred to by the French expression *raison d’État* (English: reason of the State).

It was developed during 1940's as a reaction to 'idealism' that underestimated the degree that humans are rational and believe that nations could overcome the scourge of war.<sup>22</sup> In recent decades, Kenneth Waltz and John Mearsheimer provided a more 'rigorous' model of realism (constructive realism or neorealism), according to which the international system is anarchical and the distribution of power (the balance of power) defines the structure of the system.<sup>23</sup> Mearsheimer, although shares common values of constructive realism with Waltz (defensive realism), claims that the structure of the international system compel states to maximize their power. Thus, lack of hegemony in the anarchical system increases the suspiciousness among states and leads to the enduring antagonism.<sup>24</sup> The modern realist approach issued by Zakaria and Grieco, with the first introduce variables as the power of the state and leadership,<sup>25</sup> and the second argue that cooperation between states depends on the relative cost.<sup>26</sup>

The realistic theory - as a group of theories – dealt with energy issues after the two oil crisis in 1970's. Realism examined the politics of North Africa through the assumption that the conflict and insecurity are constant features of the international system.<sup>27</sup> The prospects of conflicts between developed countries described with the term 'resource war',<sup>28</sup> referring to the pursuit of reduction of the dependency on fossil fuels and the controlled energy distribution.<sup>29</sup> The war of Iraq (2003) was

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<sup>22</sup> For an analysis about the Realist-Idealist Debate, see Ashworth, L., *“Did the Realist-Idealist Great Debate Really Happen? A Revisionist History of International Relations”*, International Relations, SAGE Publications, London, Vol 16, No 1, pp. 33–51, available at : [http://reinhardmeyers.uni-muenster.de/docs/GraduateT/Ashworth\\_2002\\_Did%20the%20Realist-Idealist%20Great%20Debate%20Really%20Happen.pdf](http://reinhardmeyers.uni-muenster.de/docs/GraduateT/Ashworth_2002_Did%20the%20Realist-Idealist%20Great%20Debate%20Really%20Happen.pdf) (accessed in 31 Aug 2012).

<sup>23</sup> Waltz, K. (1979), *“Theory of International Politics”*, McGraw-Hill, New York.

<sup>24</sup> Mearsheimer, J. (2001), p 21.

<sup>25</sup> Zakaria, F., *“The Rise of Illiberal Democracies: The Next Wave”*, Foreign Affairs, Nov 1997, available at: [http://www.fpvvmv.umb.sk/kmivad/storage/File/Clenovia/tokar/T\\_Zakaria\\_1997\\_FA\\_illiberal\\_democracy\\_Fukuyama.PDF](http://www.fpvvmv.umb.sk/kmivad/storage/File/Clenovia/tokar/T_Zakaria_1997_FA_illiberal_democracy_Fukuyama.PDF) (accessed in 01 Sep 2012); Zakaria, F., *“The Rise of the Rest”*, Newsweek, May 12, 2008, available at : <http://ws08ec01.albion.edu/admission/images/stories/pdfs/Fareed.pdf> (accessed in 01 Sep 2012).

<sup>26</sup> Grieco, J., *“Anarchy and the Limits of Cooperation: A Realistic Critique of the Newest Liberal Institutionalism”*, in Kegley, Ch. (1995), *“Controversies in International Relations Theory: Realism and the Neoliberal Challenge”*, Palgrave, London, pp. 151-171. An analysis of the term is given in Kegley C. & Raymond G. (eds) ( 2010), *“The Global Future : A Brief Introduction to World Politics”*, Wadsworth, Boston, 3<sup>rd</sup> Edition, p.207.

<sup>27</sup> Peters, S., *“Coercive Western Energy Security Strategies: ‘Resource Wars’ as a New Threat to Global Security”*, Geopolitics, Vol 9, Iss. 1, 2004, pp.187-212, available at : <http://gis.depaul.edu/abrownlow/Global%20Resources/Fall%202011/2011%20Readings/Peters,%20Resource%20Wars%20and%20Global%20Security.pdf> ( accessed in 01 Sep 2012).

<sup>28</sup> For more information about 'Resource Wars', see Billon, P., *“Geographies of War: Perspectives on Resource Wars”*, Geography Compass 1/2, 2007, pp. 163-182, available at: <https://faculty.nipissingu.ca/danw/dwhome/savepowerpshere/Le%20Billion%202007.pdf> (accessed in 01 Sep 2012).

<sup>29</sup> Peters, S. (2004), p.187.

interpreted as a political decision calculated by the US state in terms of its national interest.<sup>30</sup> Over the last decade, hydrocarbon discoveries have increased the potential conflicts related to the exploitation of the fields, following the realistic rational that power influences the outcome of the conflict.<sup>31</sup> The reason of US - Iran disputes considered to be an American attempt to control the gas distribution network in Asia, while “*conflicts between China and Japan over the ownership of an undersea gas field in an area of the East China Sea has grown increasingly inflammatory*”.<sup>32</sup> Furthermore, the increasing energy demand by great countries like Brazil, India and Chile has led producer countries to control reserves by State Owned Companies (SOEs) that gave a new dimension in the global energy market and set state the main subject in the world politics.<sup>33</sup>

### 2.2.2. Liberalism

The theory of liberalism has its roots in 17<sup>th</sup> century, with Immanuel Kant and Jeremy Bentham as the most eminent liberal political philosophers.<sup>34</sup> Kant claimed that perpetual peace was a matter of cooperation, democracy and a moral obligation of human kind to produce republican forms of government.<sup>35</sup> In 20<sup>th</sup> century, liberalism

<sup>30</sup> Condoleezza Rice called it “uniquely American realism”, in Rice, C., “*Rethinking the National Interest*”, Foreign Affairs, July/August 2008, p. 10, available at: [news/news/selectednews/files/2008/08/20080801\\_20080701\\_ForeignAffairs%20RethinkingTheNationalInterest.pdf](http://news/news/selectednews/files/2008/08/20080801_20080701_ForeignAffairs%20RethinkingTheNationalInterest.pdf) (accessed in 01 Sep 2012). About the theory of the National Interest, see Sondermann, F., “*The Theory of National Interest*”, in Olson, C.W. (1991), “*The Theory and Practice of International Relations*”, Prentice-Hall International, US, 8<sup>th</sup> edition, pp.35-43.

<sup>31</sup> Rephrasing Thucydides, it means that those who have the power use it, while weak states make compromises.

<sup>32</sup> Klare, M., “*The Geopolitics of Natural Gas*”, The Nation, January 4, 2006, available at: <http://www.thenation.com/article/geopolitics-natural-gas> (accessed in 01 Sep 2012).

<sup>33</sup> Marquina, A., “*Antonio Marquina on the Deceit of Globalization, Energy Security and Challenges to European Foreign Policy*”, Theory Talks, January 13, 2009, available at : <http://www.theory-talks.org/2009/01/theory-talk-25.html> (accessed in 01 Sep 2012).

<sup>34</sup> Kant, I. ( 1795), “*Perpetual Peace : A Philosophical Sketch*”, translated with Introduction and Notes by M. Campbell Smith, with a Preface by L. Latta, George Allen and Unwin Ltd, London, 1917 ed., available at : [http://files.libertyfund.org/files/357/0075\\_Bk.pdf](http://files.libertyfund.org/files/357/0075_Bk.pdf) (accessed in 01 Sep 2012). An analysis of Kantian theory is given in Doyle, M., “*Liberalism and World Politics*”, in Kegley, Ch. (1995), “*Controversies in International Relations Theory : Realism and the Neoliberal Challenge*”, Palgrave, London, pp.83-106. For an analysis of Bentham’s’ liberal theory of democracy, see Peonidis, F., “*Jeremy Bentham’s ‘Unusually Liberal’ Representative Democracy*”, History of European Ideas, Vol. 37, Iss. 4, 2011, pp 446-453, available at: <http://www.tandfonline.com/doi/pdf/10.1016/j.histeuroideas.2011.03.002> (accessed in 01 Sep 2012). For a criticism to the liberal theory, see Walt., S., “*International Relations: One World, Many Theories*”, Foreign Policy, No 110, Spring, 1988, available at : [http://83.143.248.39/faculty/mtzankova/POS%20102%20Readings/Walt\\_International%20Relations\\_One%20World,%20Many%20Theories.pdf](http://83.143.248.39/faculty/mtzankova/POS%20102%20Readings/Walt_International%20Relations_One%20World,%20Many%20Theories.pdf) (accessed in 01 Sep 2012).

<sup>35</sup> For an analysis about the arguments of Emmanuel Kant, see Gaubatz.,K., “*Kant, Democracy and History*”, Journal of Democracy, Vol 7, No 4, October 1996, available at : <http://kktg.net/kurt/publications/pubs/Kant,%20Democracy,%20and%20History%20I.pdf> (accessed in 01 Sep 2012).

affected decision makers in Western countries, promoting international cooperation through organizations and institutions (United Nations, International Monetary Fund etc). The end of Cold War led Francis Fukuyama to declare that liberalism prevailed to the political power of realism and that claim that ‘*the universalization of Western liberal democracy was the final form of human government*’.<sup>36</sup> In sum, liberal theory argues the close relationship between democracy and peace, enhances the possibility of achieving international security through organizations and claims that interdependencies (commercial and military) is a key factor of stability and peace.<sup>37</sup>

Contrary to realistic school of thought, liberals gave a prominence role to the cooperation between countries in energy issues. According to the liberal theory, global economy alters the relative cost of transnational exchanges, creates pressures to domestic governments and forms “*appropriate foreign economic and security policies*”.<sup>38</sup> In addition, international organizations and markets can play a dominant role in cooperation between states and overcome situations where actors implement policies that could led in a potential conflict.<sup>39</sup> The EU for example established in 1952 as European Coal and Steel Community, to enhance primarily the energy cooperation.

### **2.2.3. Marxism**

The fall of Communism signaled the decline of the intellectual appeal of Marxist theory and revealed its inability to interpret global political events. However, the Marxist analysis of capitalism is still a useful tool to analyze international political economy. Marxism established as fundamental critique of economic liberalism in 19<sup>th</sup> century and revealed a deeper analysis of the global politics.<sup>40</sup> According to Marxists, the understanding of the world events presupposed the broader knowledge of the structure and the procedures of global capitalism. Furthermore, Marxism highlighted

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<sup>36</sup> Fukuyama, F., “The End of History”, The National Interest, Summer 1989, available at: <http://www.wesjones.com/eoh.htm> (accessed in 01 Sep 2012).

<sup>37</sup> Zacher, M., and Matthew, R., “*Liberal International Theory: Common Threads, Divergent Strands*”, in Kegley, Ch. (1995), pp.107-150.

<sup>38</sup> Moravcsik, A., “*Taking Preferences Seriously: A Liberal Theory of International Relations*”, International Organization, MIT Press, Vol 51, No 4, Autumn 1997, p. 530, available at : [http://e-edu.nbu.bg/pluginfile.php/129617/mod\\_resource/content/0/Moravcsik-liberal-theory.pdf](http://e-edu.nbu.bg/pluginfile.php/129617/mod_resource/content/0/Moravcsik-liberal-theory.pdf) (accessed in 01 Sep 2012).

<sup>39</sup> Keohane, R. (1984), “*After Hegemony: Cooperation and Discord in the World Political Economy*”, Princeton University Press, New Jersey, p.54; Doyle, M., “*Michael W. Doyle on Markets and Institutions*”, Theory Talks, April 15, 2008, available at : <http://www.theory-talks.org/2008/04/theory-talk-1.html> (accessed in 01 Sep 2012).

<sup>40</sup> For a further analysis of Marxist political theory, see Baylis, J. et al (2008), pp.

the economic dimension of international relations, explaining struggle between states as a competition between capitalist classes.<sup>41</sup> In other words, state conflicts confronted as a class conflicts. Additionally, the main characteristic of capitalism - seek for more profits – led to its expansion for new markets and to imperialism.<sup>42</sup>

For Marxist analysts, the increasing interest of industrialized states to energy resources, signaled the era of energy imperialism.<sup>43</sup> Rich states exploit the natural resources of peripheral states by extracting cheap raw materials and by exploiting workforce in low cost production.<sup>44</sup> The globalization and multinational companies are the mean of the ‘world economy’ and ‘capitalism’.<sup>45</sup> In addition, according to the Marxist perspective, exports of natural resources create rapid accumulation of surplus that could erode social cohesion and magnify inequality.<sup>46</sup> As a consequence, ‘fossil capitalism’ is a new global problem that could led to expanding conflicts, although the various causes of conflicts in relation to access to energy are examining under different, social-economic criteria.<sup>47</sup>

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<sup>41</sup> Sorensen, G. and Jackson, R. (1999), p.185.

<sup>42</sup> Karl Marx argues in his “Communist Manifesto” that “*The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere*”, available at: <http://www.classicly.com/read-the-communist-manifesto-online-free/page/5> (accessed in 03 Sep 2012).

<sup>43</sup> Foster, B.J., “*Peak Oil and Energy Imperialism*”, Monthly Review, Vol.60, Iss. 03(July-August), 2008, available at : <http://monthlyreview.org/2008/07/01/peak-oil-and-energy-imperialism> (accessed in 03 Sep 2012).

<sup>44</sup> For a Marxist analysis of the relationship between energy resources and armed conflicts, see Billon, P., “*The Political Ecology of War: Natural Resources and Armed Conflicts*”, Political Geography, Vol.20, 2001, pp.561-584, available at : <http://ada.edu.az/uploads/file/The%20political%20ecology%20of%20war.pdf> (accessed in 04 Sep 2012).

<sup>45</sup> Wallerstein, I., “*The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis*”, Comparative Analysis in Society and History, Vol. 14, No 4, (Sep 1974), p.393, available at : <http://classes.uleth.ca/200501/anth2010a/Wallersteing.pdf> (accessed in 03 Sep 2012). For an analysis of ‘Globalization Theory’ and a criticism to realistic theory, see Rosenberg, J., “*Globalization Theory: A Post Mortem*”, International Politics, Palgrave Macmillan, Vol. 42, pp.2-74, available at: [http://homepage.ntlworld.com/j.rosenberg/Uneven/Writings\\_files/Rosenberg%20on%20Globalisation%20Theory%20Post%20Mortem.pdf](http://homepage.ntlworld.com/j.rosenberg/Uneven/Writings_files/Rosenberg%20on%20Globalisation%20Theory%20Post%20Mortem.pdf) (accessed in 03 Sep 2012).

<sup>46</sup> Zalik, A., “*Liquified Natural Gas and Fossil Capitalism*”, Monthly Review, Vol 60, Iss. 06, 2008, available at: <http://monthlyreview.org/2008/11/01/liquefied-natural-gas-and-fossil-capitalism> (accessed at 03 Sep 2012).

<sup>47</sup> Dannreuther, R. (2010), p.14.

### **3. Natural Gas: the Revolution that Goes On**

Energy discussion was dominated until the last few years by oil, as the major source of energy. The oil crisis in 1970's, which led to the rapid increase of the prices, highlighted the fact that there were supply risks depending on oil production countries. Other non-renewable sources, nuclear and coal power have been burdened with cost and environmental concerns, especially in the case of nuclear power with safety concerns.<sup>48</sup>

Natural gas has often been overlooked in the debate about the future of energy. Over the past few years, this has started to change, and natural gas rapidly emerged as an important energy resource. Gas reserves can serve the global demand for many decades; technology improved the exploration and transportation of natural gas, while the increasing reliance of industrialized countries on gas can diversify the monopoly of oil production. This made natural gas the rising energy source for a carbon-constrained world.

In this chapter we focus on the role of natural gas and discuss the reasons why gas is an emerging energy source. We refer to the main characteristics of gas markets, as gas trade is a potential political and economic weapon. Finally, we present the exploration activity and the technical characteristics of recent discoveries in Eastern Mediterranean.

#### **3.1. The Importance of Gas Energy**

The fundamental characteristics of natural gas contributed to its wide expansion. It is a clean, affordable and efficient energy source. First, it is more environmentally friendly than oil and coal and produces less CO<sub>2</sub>.<sup>49</sup> When used to generate electricity, for example, natural gas can reduce CO<sub>2</sub> emissions by up to 60 percent versus coal.<sup>50</sup> The low greenhouse gas emissions make it attractive to industrialized countries,

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<sup>48</sup> Kaplan, S., “Displacing Coal with Generation from Existing Natural Gas-Fired Power Plants”, Congressional Research Service, 19 January 2010, p.4, available at: [http://assets.opencrs.com/rpts/R41027\\_20100119.pdf](http://assets.opencrs.com/rpts/R41027_20100119.pdf) (accessed in 20 July 2012)

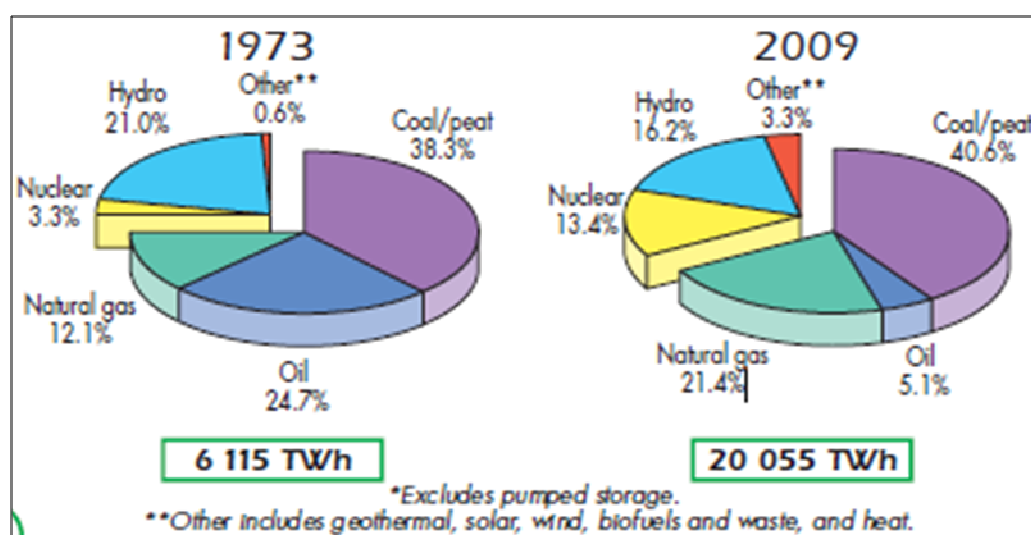
<sup>49</sup> There are some opponents of this view that claim that “the greenhouse-gas footprint of shale gas over a 20-year period is at least 20 percent higher than that of coal”, in Hamilton, T., “Just How Green is Natural Gas”, Technology Review, 15 Apr 2011, available at: <http://www.technologyreview.com/news/423661/just-how-green-is-natural-gas/> (accessed in 24 July 2012).

<sup>50</sup> Available at : <http://www.aboutnaturalgas.com/content/key-benefits/clean-and-efficient/> (accessed in 25 July 2012).

which seek to be in accordance with the Kyoto Treaty.<sup>51</sup> Natural gas has gained market share on an almost continuous basis after the oil crisis of 1970's, growing from 16 % of global energy consumption in 1973 to around 21 % today.<sup>52</sup> According to British Petroleum (BP) Energy Outlook, natural gas consumption will increase the future global energy mix from 21 to 25% over the period of 2035.

Furthermore, natural gas represents a very important - and growing - part of the global energy system. The proven global reserves are estimated over 7,360 trillion cubic feet (tcf),<sup>53</sup> abundant to cover the (global) energy needs for enough decades. It provides a competitive alternative to coal for power generation, while it can be used for industrial use, for heating and transportation. Environmental concerns and commitments have led industrialized nations to increasingly rely on gas for electricity generation (*see figure 1*).

**Figure 1: World Electricity Generation by Fuel**



**Source:** EIA, available at: [http://www.iea.org/publications/freepublications/publication/key\\_world\\_energy\\_stats-1.pdf](http://www.iea.org/publications/freepublications/publication/key_world_energy_stats-1.pdf).

Additionally, advances in natural gas production had been materialized by hydraulic fracturing, horizontal drilling, improved seismic exploration and other

<sup>51</sup> Klare, M. (2006). For more information about Kyoto Protocol, see <http://unfccc.int/resource/docs/convkp/kpeng.pdf> (accessed in 22 July 2012).

<sup>52</sup> IEA (2012), "Key World Energy Statistics", p. 6, available at : <http://www.iea.org/publications/freepublications/publication/kwes.pdf> (accessed in 04 Oct 2012).

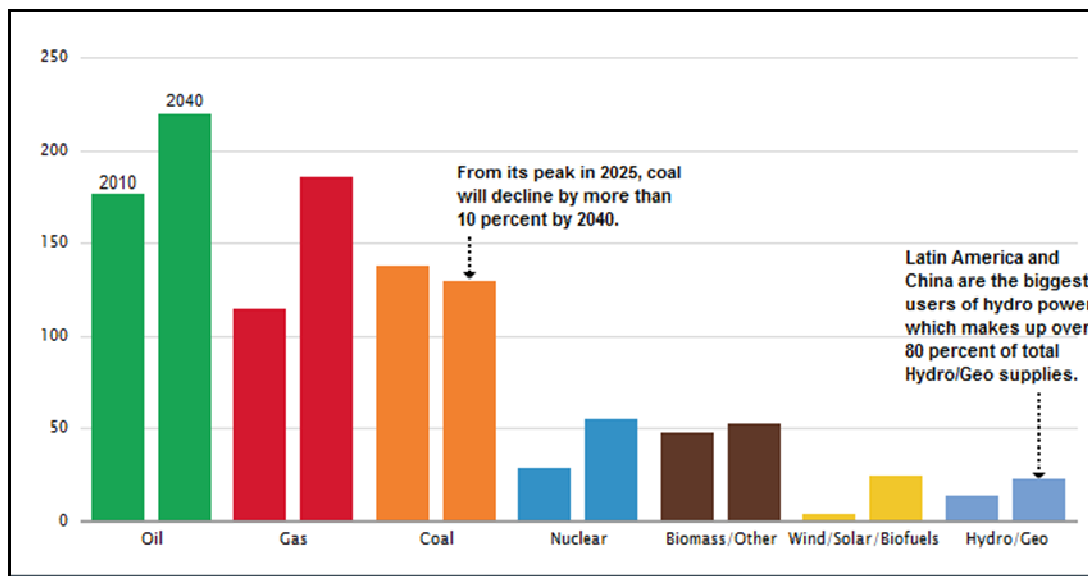
<sup>53</sup> According to the BP Statistical Review of World Energy (June 2012), available at: <http://www.bp.com/sectiongenericarticle800.do?categoryId=9037203&contentId=7068626> (accessed at 28 Aug 2012).



techniques, in order to gain access to unconventional gas reserves.<sup>54</sup> Increasing availability of natural gas has already led to be used on a widespread basis, when the projections demonstrate that it will substitute coal until 2040 (*see figure 2*). The development in production of unconventional gas could provide enormous benefits in terms of economic growth, job creation, price fluctuation and environmental protection.

The rising worldwide demand for gas has led to enormous investments in pipeline network and infrastructure. Compressed natural gas is transported in a gaseous state through pipelines from producing to consumer countries. Furthermore, natural gas can be cooled in -260 degrees Fahrenheit to become liquid, known as LNG. LNG has particular storage and transportation benefits due to the huge reduction in volume that occurs when natural gas is transformed to a liquefied state (occupies 600 times less space than the gaseous form).<sup>55</sup>

**Figure 2:** Global Energy Demand by Fuel Type (Quadrillion Btu)



**Note:** British thermal unit (symbol Btu or BTU) is approximately the amount of energy needed to heat 1 pound (0.454 kg) of water, from 39 °F to 40 °F (3.8 °C to 4.4 °C). The unit is most often used in the power, steam generation, heating and air conditioning industries.

**Source:** Exxon Mobil, available at : [http://www.exxonmobil.com/Corporate/energy\\_outlook\\_data\\_center\\_eoglobalfueldemand.aspx](http://www.exxonmobil.com/Corporate/energy_outlook_data_center_eoglobalfueldemand.aspx).

<sup>54</sup> The term ‘unconventional’ refers to the gas reserves that are more difficult or less economical to extract, usually because the technology to reach it has not been developed fully, or is too expensive. For more information about the categories of natural gas, see [http://www.naturalgas.org/overview/unconvent\\_ng\\_resource.asp](http://www.naturalgas.org/overview/unconvent_ng_resource.asp) (accessed at 24 July 2012).

<sup>55</sup> Available at: <http://www.ingaa.org/Topics/1330/4689/4693.aspx> (accessed at 25 July 2012).

To sum up, natural gas seems to be the future energy source, in a low carbon world. The EU energy policy - to reduce its emissions to 30% by 2020- will probably bear down on the emitting countries in the developed and developing world to do the same at the start of the 2013, when the Kyoto Protocol's first commitment period will have expired.<sup>56</sup> In a world that needs more energy and fewer emissions, only natural gas can cut greenhouse gas emissions now.<sup>57</sup>

### 3.2. Characteristics of Gas Energy Markets

The global demand for natural gas has created a great market. Natural gas trade has different characteristics than those of other energy sources. First, natural gas is more susceptible to political considerations. Most countries that are gas suppliers, have given the management and the distribution of their gas fields in State Owned Enterprises (SOE's), like Gazprom (Russia) and Sonatrach (Algeria).<sup>58</sup> Countries are the parties that take investment decisions and sign long term contracts. Besides, building of the trade infrastructure demands great amount of money both from the supplier and the consumer. For example, the forecast of Russian investments in gas industry development for the period 2010-2035 amounts to US \$600 billion.<sup>59</sup> Private investors and countries are trying to ensure revenues through the cooperation in political and economic level.

Furthermore, the trade of natural gas through pipelines and LNG tankers creates a significant problem in the unplugged flow of energy. Cross border gas pipelines involves transit countries and make the gas project more complicated. LNG trade may avoid transit countries, but is exposed to piracy and terrorist attacks. As a result, the cost of a natural gas project depends on the relative risk taking, while the supply may fluctuate according to the available storage installations.

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<sup>56</sup> "What is the EU Doing on Climate Change?", European Commission, available at: [http://ec.europa.eu/clima/policies/brief/eu/index\\_en.htm](http://ec.europa.eu/clima/policies/brief/eu/index_en.htm). (accessed in 27 July 2012).

<sup>57</sup> Brinded M., "You Can Count on Gas", Speech at the Gastech Conference and Exhibition, Amsterdam, March 21, 2011, available at: [http://www.shell.com/home/content/media/speeches\\_and\\_webcasts/archive/2011/brinded\\_amsterdam\\_21032011.html](http://www.shell.com/home/content/media/speeches_and_webcasts/archive/2011/brinded_amsterdam_21032011.html) (accessed in 27 July 2012).

<sup>58</sup> Hayes, M. H., & Victor, D.G., "Introduction to the Historical Case Studies: Research Questions, Methods and Case Selection", in Victor, D.G., Jaffe A. & Hayes, M. H. (2006), "Natural Gas and Geopolitics: From 1970 to 2040", Cambridge University Press, United Kingdom, p.28.

<sup>59</sup> At constant prices of the year 2007, in "Energy Strategy for the Russia for the Period up to 2030", Ministry of Energy of the Russian Federation, Moscow, 2010, p.147, available at: [http://www.energystrategy.ru/projects/docs/ES-2030\\_%28Eng%29.pdf](http://www.energystrategy.ru/projects/docs/ES-2030_%28Eng%29.pdf) (accessed in 04 Sep 2012).

**Table 1:** Top Gas Producer Countries (Proved Gas Reserves)

Number	Country	Trillion Cubic Feet (tcf)	Share of total (%)
1.	Russia	1575,0	21,4
2.	Iran	1168,6	15,9
3.	Qatar	884,5	12
4.	Turkmenistan	858,8	11,7
5.	US	299,8	4,1
<b>Total</b>		4786,7*	63,1

**Note:** The global proved gas reserves according to the same source are 7360,9 tcf

**Source:** BP Statistical Review of World Energy (June 2012), available at: <http://www.bp.com/sectiongenericarticle800.do?categoryId=9037203&contentId=7068626>.

Finally, the uneven distribution of gas supplies and production capacity makes energy security issue more complex.<sup>60</sup> Top five gas producers hold nearly 63% of the global reserves (*see table 1*) and their geographical concentration in central Asia is a key factor in geopolitics.<sup>61</sup> Consequently, producer countries can influence the global flow of gas towards the consumers and control the prices. The Russian-Ukrainian gas crisis in January 2006 led Russia to cut the supply of natural gas in the whole Europe.<sup>62</sup> The possession of the gas is not only an economical but also a political weapon.

### 3.3. Exploration Activity in Eastern Mediterranean

The history of offshore drilling in Eastern Mediterranean goes back to the late 1960's. After decades of fruitless searching for hydrocarbons, countries met their needs through imports and bilateral agreements. Israel, from the very beginning as an independent state, imports energy because lacks of natural resources. The requirement for foreign energy supply affected its policy with neighbor countries, particularly with Egypt, which provided Israel with oil. The high dependency on energy supply from

<sup>60</sup> Kenderdine, M.A., & Moniz, E. J., “*Technology Development and Energy Security*”, in Kalincki, J.H., and Goldwyn, D.L. (2005), p. 427.

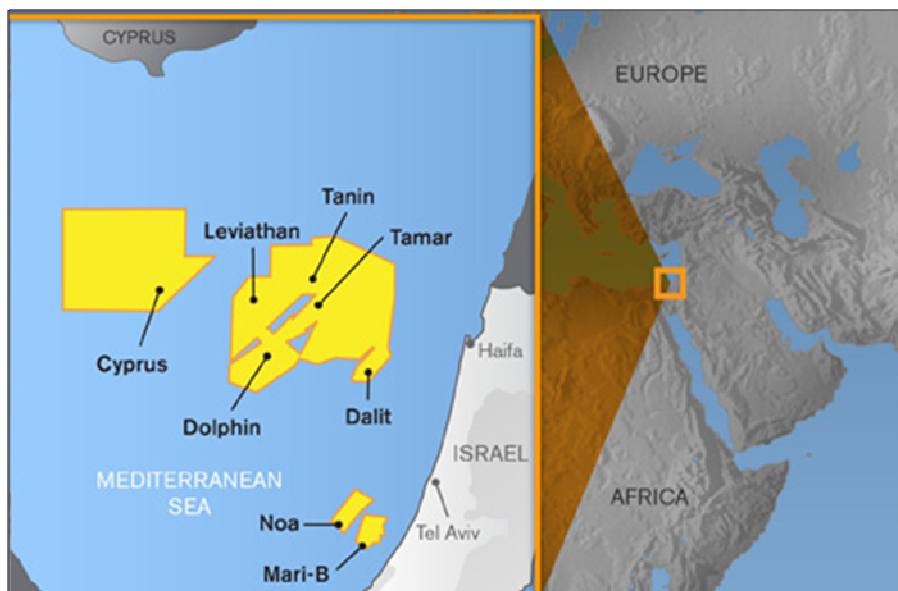
<sup>61</sup> Klare, M. (2006).

<sup>62</sup> For more information about the Russia-Ukrainian crisis in 2006, see Stern, J., “*The Russian-Ukrainian Gas Crisis of January 2006*”, Oxford Institute for Energy Studies (OIES), January 16, 2006, available at: <http://www.avim.org.tr/icerik/energy-gas.pdf> (accessed in 28 Aug 2012).

Egypt was to such extend, that the Peace Treaty of 1979 contained special provision to ensure normal economic relations.<sup>63</sup>

In 1999, a joint venture between Delek Energy<sup>64</sup> and Noble Energy,<sup>65</sup> discovered Noa reservoir and one year later Mari-B (*see map 1*), near Ashkelon, known as “Yam

**Map 1: Recent Gas Discoveries in Levantine Basin**



**Source :** Noble Energy, available at: <http://www.nobleenergyinc.com/operations/international/eastern-mediterranean-128.html> .

Tethys”.<sup>66</sup> The gas field that had approximately 1,2 tcf/over 33.5 bcm of the highest quality (99,9% pure methane),<sup>67</sup> introduce the use of natural gas in Israeli market and reduce its dependency on imports. The foundation of Israeli gas industry initiated a turn in the use of coal for electricity. Israeli Electric Corporation (IEC) reached two

<sup>63</sup> “Peace Treaty between Israel and Egypt”, Israel Ministry of Foreign Office, March 26, 1979, available at: <http://www.mfa.gov.il/MFA/Peace%20Process/Guide%20to%20the%20Peace%20Process/Israel-Egypt%20Peace%20Treaty> (accessed in 29 July 2012).

<sup>64</sup> Delek Energy Ltd is an Israeli leading oil and gas company, subsidiary of the Delek Group, with a market value of \$2 Billion. Delek Energy has been publicly traded on the Tel Aviv Stock Exchange since 1982. Delek Group through its subsidiaries, Delek Drilling and Avner, involve in oil and gas exploration in the Levantine Basin. For more information, see <http://www.delekenergy.co.il/?CategoryID=163&ArticleID=77> (accessed in 29 July 2012).

<sup>65</sup> Noble Energy is an energy company founded in 1932, based on Houston, Texas. Its assets are totaling over \$16 billion at year-end 2011. For more information, see <http://www.nobleenergyinc.com/About-Us/Our-Value-50.html> (accessed in July 2012).

<sup>66</sup> In Yam Tethys Group, Noble owns 47,059%; Delek Drilling holds 25.5%; Avner owns 23%; and Delek Investments and Properties Ltd. holds 4.441%, available at : <http://ir.delekgroup.com/phoenix.zhtml?c=160695&p=irol-newsArticle&ID=1651801&highlight=> (accessed in 29 July 2012)

<sup>67</sup> Available at : <http://www.delekenergy.co.il/?CategoryID=163&ArticleID=77> (accessed in 29 Jul 2012).

agreements with Yam Tethys Group (2002 and 2009),<sup>68</sup> purchased the bulk of the natural gas of the reservoir and covered the 67% of its gas needs.<sup>69</sup>

In the beginning of 2009, there were new gas discoveries located in northern Israeli coast. The offshore ‘Tamar’ (January) and ‘Dalit’ (March) natural gas fields contained 9,7 tcf/275 bcm and 0,5 tcf /14 bcm respectively (*see map 1*).<sup>70</sup> The ‘Tamar’ was the largest deepwater find ever discovered in the under-explored area of the Mediterranean Sea (at a depth of 1678m)<sup>71</sup> and the largest discovery in the history of Noble Energy.<sup>72</sup> According to the company, the expected gross revenue is totaling from \$28 to 33\$ billion and the first sales are expected in April 2013.<sup>73</sup>

Nonetheless, Israel’s maritime exploitation zone “*held even greater potential*”.<sup>74</sup> The ‘Leviathan’ gas field is located in 1634m depth of water offshore Israel, 130 kilometers of Haifa and 47 kilometers southwestern of the ‘Tamar’ discovery (*see map 1*). It was discovered in June 2010 with a gross mean of 17 tcf /480 bcm.<sup>75</sup> The second large deep-water discovery confirmed the assessment of United States Geological Survey (USGS), concerning the undiscovered oil and gas potential in the Eastern Mediterranean. According to its surveys, the Levantine Basin contains 1,68 billion barrels of recoverable oil and 122 tcf/3.452bcm of recoverable natural gas (*see map 2*).

The perceptions of natural gas potential in the Levantine Basin augmented with the recent discoveries in Cyprus. Cyprus launched its offshore licensing round in February 2007 and gave an Exploration License for Block No 12 to Noble Energy on the

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<sup>68</sup> Available at : <http://www.iec.co.il/EN/IR/Pages/Fuels.aspx> (accessed in 29 Jul 2012).

<sup>69</sup> Even S., “*Israel’s Natural Gas Resources: Economic and Strategic Significance*”, Strategic Assesment, Vol 13, No.1, July 2010, p.9, available at: <http://www.inss.org.il/upload/%28FILE%291279453466.pdf> (accessed in 29 Jul 2012).

<sup>70</sup> Delek Group, Company Presentation, July 2012, available at: <http://www.delek-group.com/Portals/0/delek/presentation/present.pdf> (accessed in 30 Jul 2012).

<sup>71</sup> Available at: [http://www.subseaiq.com/data/Project.aspx?project\\_id=459&AspxAutoDetectCookieSupport=1](http://www.subseaiq.com/data/Project.aspx?project_id=459&AspxAutoDetectCookieSupport=1) (accessed in 01 Aug 2012).

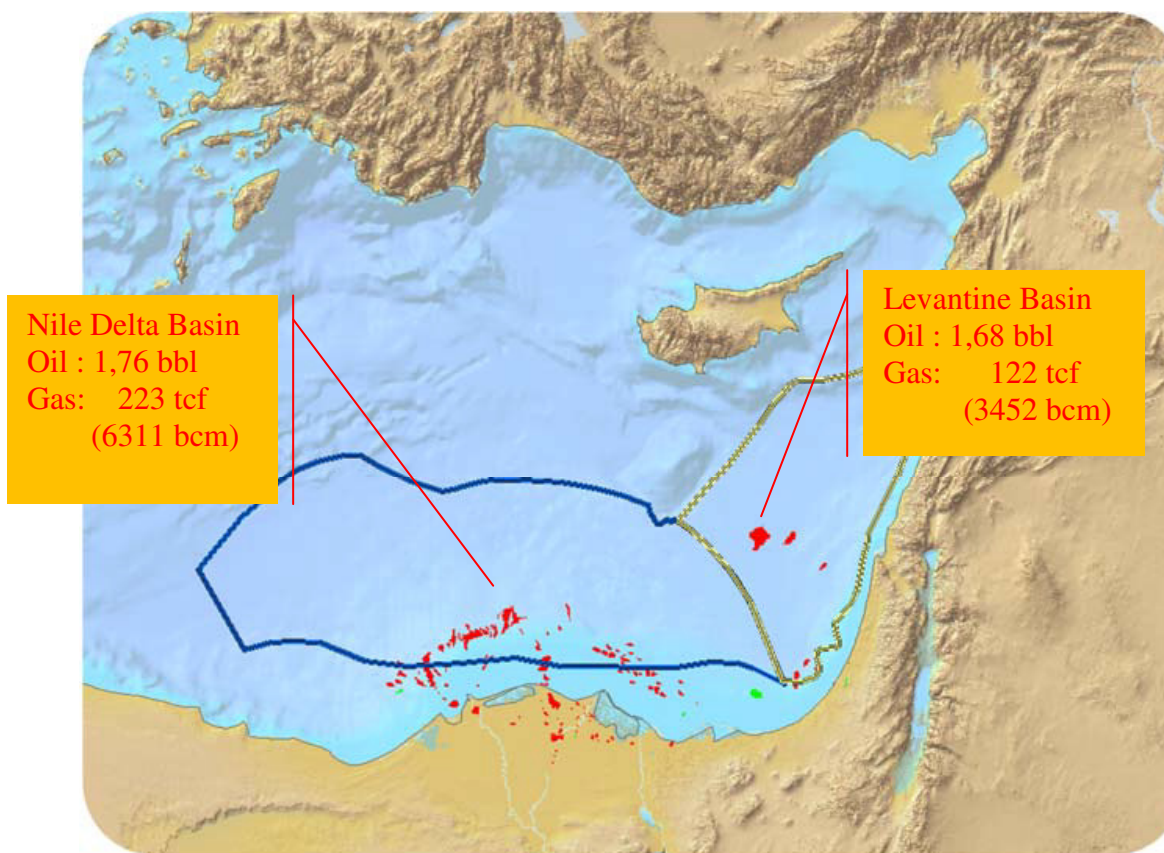
<sup>72</sup> Noble Energy operates Tamar with a 36% working interest; Isramco Negev 2 holds 28.75%; Delek Drilling holds 15.63 %; Avner Oil Exploration holds 15.63%; and Dor Gas Exploration holds the remaining 4%. The developing cost is available at [http://www.subseaiq.com/data/Project.aspx?project\\_id=459&AspxAutoDetectCookieSupport=1](http://www.subseaiq.com/data/Project.aspx?project_id=459&AspxAutoDetectCookieSupport=1) (accessed in 01 Aug 2012).

<sup>73</sup> Noble Energy, “*Annual Report 2011*”, available at: [http://www.nobleenergyinc.com/\\_filelib/FileCabinet/PDFs/Presentations/2012\\_06\\_Investor\\_Books\\_%28Final%29.pdf](http://www.nobleenergyinc.com/_filelib/FileCabinet/PDFs/Presentations/2012_06_Investor_Books_%28Final%29.pdf) (accessed in 01 Aug 2012).

<sup>74</sup> Brodet, D., “*The Significance Strategic Development for Israel*”, Vol.10, edition 11<sup>th</sup>, March 31, 2012, available at: <http://www.bitterlemons-international.org/previous.php?opt=1&id=373> (accessed in 01 Aug 2012).

<sup>75</sup> According to Noble Energy, that operates the license, holding a 39.7% interest; Ratio Oil Exploration 1992 LP holds 15%; Delek Drilling LP holds 22.7%; and Avner Oil and Gas Ltd. holds 22.7% interest; available at : [http://www.subseaiq.com/data/Project.aspx?project\\_id=814](http://www.subseaiq.com/data/Project.aspx?project_id=814) (accessed in 01 Aug 2012).

**Map 2:** Undiscovered Oil and Gas Resources in the Eastern Mediterranean  
Assessment by USGS



**Source:** Kassinnis, S., “*The Status of Hydrocarbon Exploration in Cyprus*”, Presentation at the First Energy Symposium, Nicosia, Cyprus, January 26, 2012, available at : <http://www.iene.gr/symposium-cyprus2012/articlefiles/2nd-session/Kasinis.pdf>.

24th of October 2008.<sup>76</sup> In Dec 2011, after the delimitation of the maritime boundaries with Israel, Noble Energy announced that the initial evaluation work indicated an estimated gross resource range of 5 to 8 tcf/ 142 to 227 bcm.<sup>77</sup> The ‘Aphrodite’ natural gas field is located in a water depth of 1689 m, south of the coast of Cyprus, in Block 12. Cyprus has already launched its second licensing round in Feb 2012 for eleven Blocks in its maritime zone (*see map 3*).<sup>78</sup>

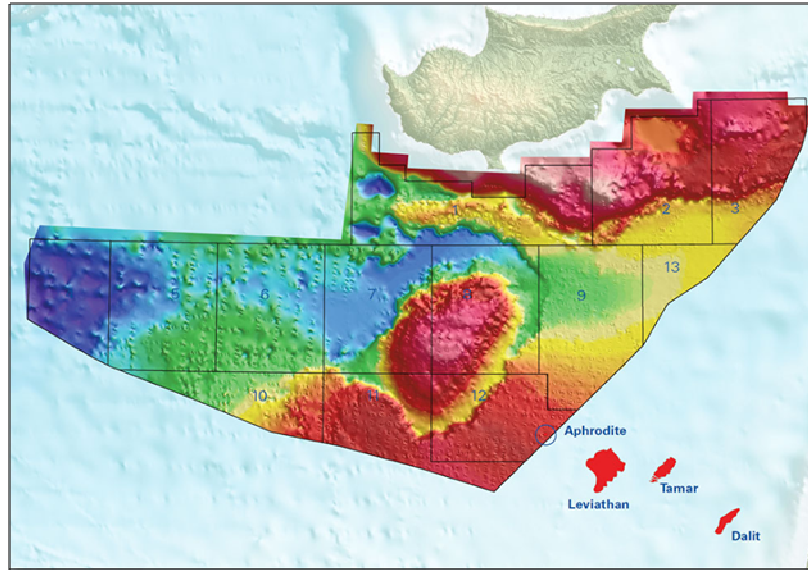
<sup>76</sup> Available at: [http://www.mcit.gov.cy/mcit/mcit.nsf/dmlhexploration\\_en/dmlhexploration\\_en?OpenDocument](http://www.mcit.gov.cy/mcit/mcit.nsf/dmlhexploration_en/dmlhexploration_en?OpenDocument) (accessed in 01 Aug 2012).

<sup>77</sup> Noble Energy operates the discovery with a 70 percent working interest; while Delek Drilling and Avner Oil Exploration each hold 15 percent stakes, available at: [http://www.subseaiq.com/data/Project.aspx?project\\_id=1008](http://www.subseaiq.com/data/Project.aspx?project_id=1008) (accessed in 01 August 2012).

<sup>78</sup> “*Notice Announcing the Second Licensing Round Offshore Cyprus Concerning the Authorization for Hydrocarbons Explorations*”, Official Journal of the European Union, February 11, 2012, available at: [http://www.mcit.gov.cy/mcit/mcit.nsf/all/934821A2162C709EC22579AA0029ED64/\\$file/Anouncement-Invitation\\_2012%20%28EN%29.pdf?openelement](http://www.mcit.gov.cy/mcit/mcit.nsf/all/934821A2162C709EC22579AA0029ED64/$file/Anouncement-Invitation_2012%20%28EN%29.pdf?openelement) (accessed in 01 August 2012).



**Map 3:** Exclusive Economic Zone of Cyprus



**Source:** Petroleum Geo-Services, available at: [http://www.pgs.com/en/Pressroom/Calendar\\_of\\_Events/Campaigns/2012/MultiClient-Newsletter/Middle-East-Newsletter/Cyprus-License-Round-Announcement/](http://www.pgs.com/en/Pressroom/Calendar_of_Events/Campaigns/2012/MultiClient-Newsletter/Middle-East-Newsletter/Cyprus-License-Round-Announcement/).

Delek Group announced in 8<sup>th</sup> February 2012 the most recent discovery of natural gas in a depth of 5551m (1773 m of water).<sup>79</sup> The gas field ‘Tanin’ is 120 kilometers northwest of Haifa and its resources are estimated from 0.9 to 1.4 tcf.<sup>80</sup> (*see map 1*).

The total discovered mean resources in the Levantine Basin are now estimated to be 35 tcf / 1 tcm, the majority of which are in the Israeli Exclusive Economic Zone (EEZ) (*see table 2*). The region is on the way to become a significant natural gas provider, and can emerge in a lucrative energy market. Israel, not only secures its energy supply for many decades and increased its energy security, but can also become a potential energy exporter. Developing these resources, however, Israel and Cyprus will require exceeding major challenges with geopolitical implications. Energy is increasingly becoming a main component of geopolitical struggle in the Eastern Mediterranean.

<sup>79</sup> Available at : [http://www.subseaiq.com/data/Project.aspx?project\\_id=1060](http://www.subseaiq.com/data/Project.aspx?project_id=1060) (accessed in 2012).

<sup>80</sup> Noble Energy operates the license with a 47.06 percent interest; while Avner Oil and Delek Drilling each hold a 26.47 percent stake, available at : [http://www.subseaiq.com/data/Project.aspx?project\\_id=1060](http://www.subseaiq.com/data/Project.aspx?project_id=1060) (accessed in 02 Aug 2012).

**Table 2:** Natural Gas Fields in Levantine Basin

Gas Field	Quantity (in tcf)
Leviathan	17
Tamar (production 2013)	9
Dolphin	0.1
Dalit	0.5
Tanin	1.2
Mari B (near depletion)	1.1
Noa (production 2012)	0.04
Total	28
Total (including Cyprus)	35

**Source:** Henderson, S., “*Energy Discoveries in the Eastern Mediterranean: Source for Cooperation or Fuel for Tension? The Case of Israel*”, GMF, June 11, 2012, available at: [http://www.gmfus.org/wpcontent/blogs.dir/1/files\\_mf/1339083541Henderson\\_EnergyDiscoveries\\_Jun12.pdf](http://www.gmfus.org/wpcontent/blogs.dir/1/files_mf/1339083541Henderson_EnergyDiscoveries_Jun12.pdf) .



#### **4. Geopolitical Implications in Eastern Mediterranean**

Newly discovered natural gas reserves in Eastern Mediterranean provides opportunities and, at one and the same time, challenges.<sup>81</sup> On one hand, neighboring countries can cooperate to ensure their energy security, to meet their growing energy needs and improve their domestic economies. On the other, legal implications related to the demarcation of the maritime zone and geopolitical hurdles, that have historical roots, trigger potential conflicts to the region.

Middle East was always vulnerable to conflicts and recent discoveries make foreign relations between countries more complicated. Israel is the key player, as the recent offshore discoveries in its territorial waters increase its energy security and provide it with economic and strategic advantages.<sup>82</sup> Major actors of these disputes are also Cyprus and Turkey, with the first performing as a potential energy exporter and the last “*taking on a more active role to provide order, stability and security in its environment*”.<sup>83</sup> In addition, neighboring countries like Egypt and Lebanon are trying to exploit the geopolitical changes that new source of energy created to gain domestic benefits. The possibility of finding more gas reserves makes Middle East once again an inflammable region.

In this chapter, we focus on the relationship between increasing energy demand and increasing interest that Middle East countries have in order to secure their energy supply, providing a framework for understanding their energy policies. We also examine how recent gas developments create conflicts (Israeli-Arab countries), challenge the Turkish aspirations to become an energy hub and become an incentive for cooperation (Israel- Cyprus-Greece triangle). We use the neo-realistic approach to deal with the geopolitical implications in the form of the offensive realism, to evaluate how power, expressed as a military presence in Eastern Mediterranean, builds energy strategies.

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<sup>81</sup> Khadduri, W.(2012), pp. 111-117.

<sup>82</sup> Even, S. (2010), p.7.

<sup>83</sup> “*Synopsis of the Turkish Foreign Policy*”, Republic of Turkey, Ministry of Foreign Affairs, available at : <http://www.mfa.gov.tr/synopsis-of-the-turkish-foreign-policy.en.mfa> (accessed in 28 Sep 2012).

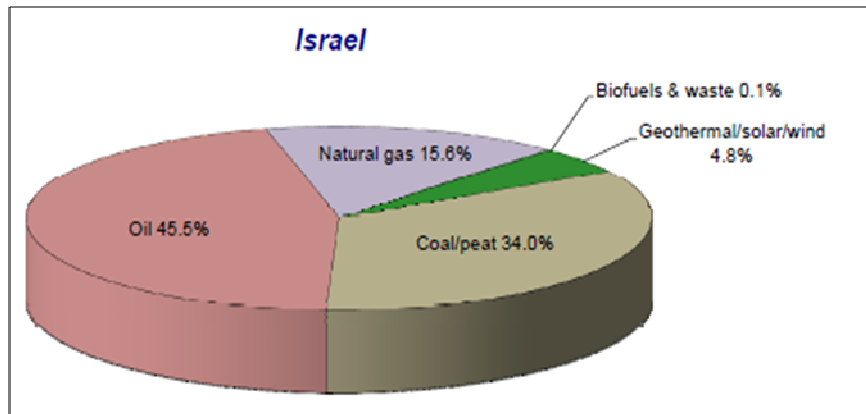
## 4.1. Natural Gas as a Source of Conflict for Israel

### 4.1.1. Israeli Energy Policy

Israel has been dependent on energy imports since it became a state in 1948. The geographical position of the new country - surrounded by Arab nations – led it to rely only on local exploration companies with little experience.<sup>84</sup> During 1970's, Israel met its energy needs completely from Sinai's Peninsula oil reserves.<sup>85</sup> The signing of Camp David's Agreement in 1979 improved the relations between Israel and Egypt and promoted the energy cooperation. During the next decade, Jewish state tried to diversify energy imports, contracting economic and political relations with former Russian states, Kazakhstan and Azerbaijan.<sup>86</sup> Today, Israel imports approximately 85 per cent of its energy needs.<sup>87</sup>

Israeli industry energy consumption is based on oil, coal and gas imports, while household heating is producing almost 75 per cent from solar energy.<sup>88</sup> The consumption of natural gas has been grown since 2003, but remains a relative small portion of its current use (15,6 %) (see Figure 3). For all that, investments on

**Figure 3:** Share of Total Primary Energy Supply (2009)



**Source:** IEA, available at: [http://www.iea.org/stats/graphresults.asp?COUNTRY\\_CODE=IL](http://www.iea.org/stats/graphresults.asp?COUNTRY_CODE=IL).

<sup>84</sup> Khaddurie, W. (2012), p.113.

<sup>85</sup> For more information, see Baghat, G., "Israel's Energy Security: the Caspian Sea and the Middle East", Israel Affairs, Vol.16, No 3, July 2010, p. 408.

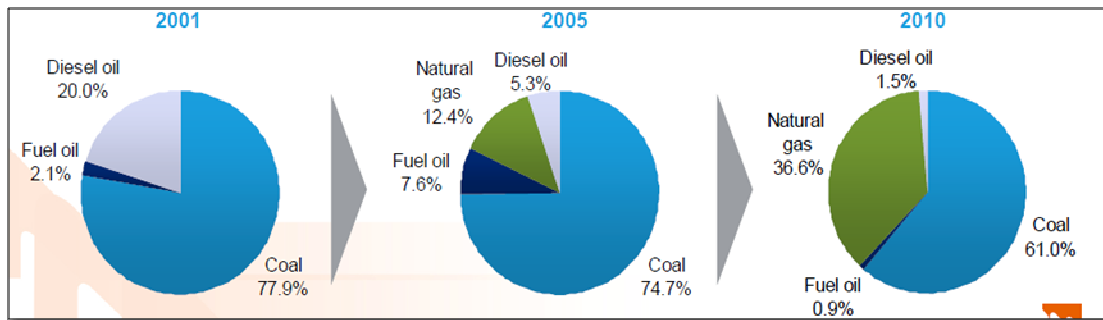
<sup>86</sup> Ibid, pp. 409-411.

<sup>87</sup> Gala, O., and Razloul, N., "Egyptian Gas to Israel, Jordan May Halt for Two Weeks", Bloomberg, February 6, 2011, available at: <http://www.bloomberg.com/news/2011-02-05/egypt-gas-pipeline-feeding-israel-explodes-in-sinai-desert-arabiya-says.html> (accessed in 11 Sep 2012).

<sup>88</sup> "Israel's Experience in Sustainable Energy", Republic of Israel, Ministry of Environment, January 2006, available at : <http://www.unep.org/gc/gcss-ix/documents/israel-energy3.pdf> (accessed in 11 Sep 2012).

infrastructure and development on natural gas sector – plant in Ashkelon, system of transportation– has led to a rapid increase of using gas in electricity production, reaching almost 40 per cent (*see figure 4*).<sup>89</sup> Ministry of Infrastructure forecast that the increase in natural gas consumption from 5,2 bcm in 2010 will be 18 bcm by 2030, of which 85% will go to electricity generation and to industry.<sup>90</sup>

**Figure 4: Generation Mix by Fuel Type**



**Source:** IEC, available at: [http://www.iec.co.il/EN/IR/Documents/IECs\\_Presentation.pdf](http://www.iec.co.il/EN/IR/Documents/IECs_Presentation.pdf).

Recent discoveries changed dramatically Israel’s energy perspective. The estimated gas reserves seem to be enough for Israel to become energy exporter. Ministry of Infrastructure is exploring the possibility to construct an underwater pipeline or power cable to supply European markets, or build liquefaction facilities to export LNG. However, Israeli energy policy influences its relations with neighboring countries and raises the potential of conflict in the already turbulent region.

#### **4.1.2. The Rising Conflict with Lebanon**

Tensions in the relation between Lebanon and Israel have been running high during the second half of the twentieth century. Few years after the end of Arab-Israel War (1949), the establishment of Palestine Liberation Organization (PLO) in 1964 and its continuous armed raids into Israel, led to the Lebanon War and Israeli occupation (1982–1985). The resistance movement of ‘Hezbollah’ provoked many assassinations and border clashes, causing the direct response of Israeli Army in 2006.<sup>91</sup> Since then, isolated incidents preserve the foreign relations of neighboring countries strained.

<sup>89</sup> “IEC’s Presentation”, Israel Electric Corporation Ltd, Feb 2012, available at: [http://www.iec.co.il/EN/IR/Documents/IECs\\_Presentation.pdf](http://www.iec.co.il/EN/IR/Documents/IECs_Presentation.pdf) (accessed in 11 Sep 2012).

<sup>90</sup> “The Natural Gas Sector in Israel : Forecast Demand”, Ministry of Energy and Water Resources, available at : <http://energy.gov.il/English/Subjects/Natural%20Gas/Pages/GxmsMniNGEconomy.aspx> (accessed in 11 Sep 2012).

<sup>91</sup> Israel has been strictly criticized for its offensive foreign policy, indicatively: Inbar, E., “How Israel Bungled the Second Lebanon War”, Middle East Quarterly, Summer 2007, pp.57-65, available at:

Gas discoveries in 2009 (Tamar) and 2010 (Leviathan) caused legal disputes, concerning the demarcation of the maritime borders (*see map 4*).<sup>92</sup> According to Article 74 of the United Nations Conventions on the Law of the Sea (UNCLOS), states with opposites or adjacent coasts must delimit their EEZ by applying the international law, in order to find an equitable solution.<sup>93</sup> Lebanon signed a bilateral agreement with Cyprus in 2007, ratified by Cyprus but not by the Lebanese Parliament.<sup>94</sup>

**Map 4:** Disputed Border Area Between Israel and Lebanon



**Source:** YaLIBNAN, 2012, available at: <http://www.yalibnan.com/2012/03/01/lebanon-speaker-on-eez-our-problem-is-with-israel-not-cyprus/>.

<http://www.meforum.org/1686/how-israel-bungled-the-second-lebanon-war> (accessed in 12 Sep 2012), Reinhart, T., “Israel’s ‘New Middle East’ ”, Peace and Security, July 27, 2006, available at: [http://www.tni.org/archives/archives\\_reinhart\\_newmiddleeast](http://www.tni.org/archives/archives_reinhart_newmiddleeast) (accessed in 12 Sep 2012).

<sup>92</sup> The legal term ‘Exclusive Economic Zone’ (EEZ) refers to “the sovereign rights of the coastal State for the purpose of exploring and exploiting, conserving and managing the natural resources”, UNCLOS, Dec 10, 1982, article 55, available at: [http://www.un.org/depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf) (accessed in 12 Sep 2012).

<sup>93</sup> Ibid, article 74.

<sup>94</sup> According to General Nizan Abdel-Kadar, political analyst for the Ad-Diyar newspaper in Beirut, the agreement was never ratified due to fears that Turkish government might express reservations that could affect their economic relations, in Wahlisch, M., “Israel-Lebanon Offshore Oil and Gas Dispute-Rules of International Maritime Law”, The American Society of International Law, Vol.15, Iss. 31, December 5, 2011, available at : <http://www.asil.org/pdfs/insights/insight111205.pdf> (accessed in 13 Sep 2012).

In December 2010, a unilateral demarcation of Lebanese maritime borders with Israel deposited to UN,<sup>95</sup> few months before Cyprus and Israel ratified their delimitation of their maritime borders (Feb 2011). This raised a disputed area, estimated about 850 squares kilometers,<sup>96</sup> over which Lebanon claims exploiting rights.

After the announcement of Noble energy about significant gas discoveries in Israel's maritime borders, Lebanon argued that natural gas fields are partially in Lebanese EEZ. The Lebanese Foreign Minister stated that *“Israel's measures have created a new point of tension in the region and threaten peace and security across this region”*, claiming that Israel infringe on Lebanese EEZ.<sup>97</sup> Similarly, President Michel Suleiman warned that *“Lebanon will defend its rights and resources by any and all legitimate means.”*<sup>98</sup> Few weeks ago, the Israel's Minister of National Infrastructure, Uzi Landau, had made a provocative statement, according to which Israel would not hesitate to use its force and strength *“to protect not only the rule of law, but the international maritime law.”*<sup>99</sup> The political rhetoric of both sides manifests the great significance of energy resources and their close relation to national security.<sup>100</sup>

Despite the delimitation disputes, Lebanon launched this year the first round of bidding for exploration.<sup>101</sup> In addition, Ministry of Energy and Water announced invitation for expression of interest in construction and operation of a floating storage and regasification unit (FSRU), in order to supply natural gas in 2015.<sup>102</sup> New discoveries in maritime borders could benefit tremendously Lebanon to overcome the

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<sup>95</sup> In 2010, Lebanon declared unilaterally its maritime borders with Cyprus and Israel that differed from those of the bilateral agreement of 2007 with Cyprus; Ibid.

<sup>96</sup> For additional geographic information, see Scovvazi, T., *“Maritime Boundaries in the Eastern Mediterranean Sea”*, Policy Brief, GMF, June 2012, p.9, available at: [http://www.gmfus.org/wpcontent/blogs.dir/1/files\\_mf/1339170753Leigh\\_SummaryDocument\\_Jun12\\_maps.pdf](http://www.gmfus.org/wpcontent/blogs.dir/1/files_mf/1339170753Leigh_SummaryDocument_Jun12_maps.pdf) (accessed in 13 Sep 2012).

<sup>97</sup> Kessler, O., *“Lebanon Warns Israel Against Sea-Border Demarcation”*, The Jerusalem Post, July 11, 2011, available at: <http://www.jpost.com/LandedPages/PrintArticle.aspx?id=228880> (accessed in 13 Sep 2012).

<sup>98</sup> Ibid.

<sup>99</sup> *“Infrastructure Minister Warns Hezbollah: Israel Will Fight for its Gas Fields”* Haaretz, June 24, 2010, available at: <http://www.haaretz.com/news/diplomacy-defense/infrastructure-minister-warns-hezbollah-israel-will-fight-for-its-gas-fields-1.298077> (accessed in 13 Sep 2012).

<sup>100</sup> According to Brenda Shaffer, the ‘Israel Card’ was used from Lebanese government to pass the ‘Petroleum Law’, by which revenues were placing in the government budget instead of a public revenue fund, in Shaffer, B., *“Israel-New Natural Gas Producer in the Mediterranean”*, Energy Policy, Elsevier, Vol.39, Iss.9, 2011, p.5385-5386.

<sup>101</sup> *“Lebanon 1<sup>st</sup> Licensing Round”*, Republic of Lebanon, Ministry of Energy and Water, available at: [http://www.lebanon-exploration.com/Downloads/LIPE\\_2012/Leb\\_MEW\\_Flyer\\_16Apr12.pdf](http://www.lebanon-exploration.com/Downloads/LIPE_2012/Leb_MEW_Flyer_16Apr12.pdf) (accessed in 13 Sep 2012).

<sup>102</sup> *“Lebanon to Join LNG Importers Club”*, LNG World News, April 6, 2012, available at: <http://www.lngworldnews.com/lebanon-to-join-lng-importers-club/> (accessed in 13 Sep 2012).

bad economic situation,<sup>103</sup> but in the same time could escalate the tensions in the region. Stable foreign relations with Israel are a prerequisite for Lebanon to develop its energy factor, although it seems that the resistance of Hezbollah deprives such opportunity.<sup>104</sup>

#### 4.1.3. The Revival of 'Cold Peace' with Egypt

The state of war between both countries dated back from the Arab-Israeli War in 1948, which ended in 1979 with a Peace Treaty (Camp David Accord). The period that followed is known as "Cold Peace", and kept over 30 years.<sup>105</sup> The Egyptian revolution (part of the so-called 'Arab Spring') entailed Mubarak's resignation and brought to power a new Islamic government that raised great concerns about the preservation of the Peace Treaty.<sup>106</sup> The agitation was not unjustifiable; the new Islamist Prime Minister Mohammed Morsi, speaking in the Islamic Conference in Mecca, stressed that "*the Palestinian issue is the most urgent*".<sup>107</sup> Furthermore, Egypt infringed the term of Peace Treaty and sent troops to occupy Sinai Peninsula.<sup>108</sup> The resilience of the peace treaty was facing a serious test, and energy commitments made the situation more complex.

Israel imports a large volume of oil from Egypt, after the Peace Treaty of 1979. Nonetheless, gas exports were launched in 2008, after the deal between IEC and the Egyptian Eastern Mediterranean Gas Company (EMG). EMG constructed a 90 kilometer undersea pipeline from El Arish in Egypt's Sinai to the Israeli port of

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<sup>103</sup> Lebanese public debt is 134% of GDP (2011 est.) and public deficit -6% (2011 est.), in Central Intelligence Agency (CIA), "*The World Factbook*", available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/le.html> (accessed in 13 Sep 2012).

<sup>104</sup> Ravid, B., "*Netanyahu: Israel Will Strike Lebanese State in Case of Hezbollah Provocation*", Haaretz, August 27, 2012, available at: <http://www.haaretz.com/news/diplomacy-defense/netanyahu-israel-will-strike-lebanese-state-in-case-of-hezbollah-provocation.premium-1.460853> (accessed in 13 Sep 2012).

<sup>105</sup> Kasinof, L., "*An Uneasy Egyptian-Israeli Peace*", Aljazeera, June 9, 2010, available at: <http://www.aljazeera.com/focus/2010/06/20106913118995853.html> (accessed in 13 Sep 2012). For the number of realities that led to the 'Cold' Peace, see Aly, M. S. and Feldman, S., "*Testing the Resilience of Egyptian-Israeli Peace*", Middle East Brief, Crown Center for Middle East Studies, No 56, Nov 2011, available at: <http://www.brandeis.edu/crown/publications/meb/meb56.html> (accessed in 13 Sep 2012).

<sup>106</sup> Black, I., "*Egypt Protests: Israel Fears Unrest May Threaten Peace Treaty*", The Guardian, Jan 31, 2011, available at: <http://www.guardian.co.uk/world/2011/jan/31/israel-egypt-mubarak-peace-treaty-fears> (accessed in 13 Sep 2011).

<sup>107</sup> Issacharoff, A., "*At Islamic Conference, Egypt's Morsi Calls for Regime Change in Syria*", Haaretz, August 15, 2012, available at: <http://www.haaretz.com/news/middle-east/at-islamic-conference-egypt-s-morsi-calls-for-regime-change-in-syria-1.458487> (accessed in 13 Sep 2012).

<sup>108</sup> Issacharov, A., "*Egypt Deployed Troops in Sinai Without Israel's Prior Approval*", Haaretz, August 16, 2012, available at: <http://www.haaretz.com/news/diplomacy-defense/egypt-deployed-troops-in-sinai-without-israel-s-prior-approval-1.458511> (accessed in 13 Sep 2012).

Ashkelon (see map 5), providing 25 bcm of natural gas for 15 years (at an annual rate of 1,7 bcm/y).<sup>109</sup>

**Map 5:** Egypt Natural Gas Export Pipeline



**Source:** Middle East Strategic Perspectives, available at: <http://www.mestategicperspectives.com/wp-content/uploads/2012/07/Arab-Gas-Pipeline.png>.

It is estimated that Israel imports from Egypt about 2,5 bcm (2010 est.), almost 40 per cent of its total consumption.<sup>110</sup> However, the pipeline becomes target of 13 terrorist attacks, since Hosni Mubarak was ousted from office in Egypt.<sup>111</sup> In 22 April, Mohamed Shoeb, head of the Egyptian Natural Gas Holding Company, stressed that

<sup>109</sup> Shmuel, E., “Egypt’s Revocation of the Natural Gas Agreement with Israel: Strategic Implications”, INSS Insight, No. 332, May 6, 2012, available at : <http://www.inss.org.il/publications.php?cat=21&incat=&read=6488> (accessed in 14 Sep 2012).

<sup>110</sup> The total Israel’s consumption is approximately 5,2 bcm (2010 est), in Republic of Israel, Ministry of Energy and Water Resources, “The Natural Gas Sector in Israel: Forecast Demand”, available at : <http://energy.gov.il/English/Subjects/Natural%20Gas/Pages/GxmsMniNGEconomy.aspx> (accessed in 14 Sep 2012).

<sup>111</sup> Lynch, S., “Effects of Pipeline Attacks Spread Beyond Egypt”, USA Today, March 14, 2012, available at: <http://www.usatoday.com/news/world/story/2012-03-05/egypt-natural-gas-pipeline-jordan-israel/53520880/1> (accessed in 14 Sep 2012).

the company will terminate the supply of natural gas to Israel and that this termination of the deal had to do with commercial reasons and not with the repeated attacks on the pipeline.<sup>112</sup>

Border attacks in Sinai Peninsula during this summer made the two neighboring countries to increase their suspiciousness. Egypt, without the Israeli approval, deployed more ground troops in order to monitor the borders (under the terms of the 1979 Peace Treaty, which returned Sinai to Egyptian control).<sup>113</sup> The increasing suspiciousness has led to an arm race, both supporting by US industry.<sup>114</sup> Israel's military expenditures were almost twice, 7,3 % of GDP (2006 est.) comparing with 3,4 of the Egyptian (2005 est.).<sup>115</sup> Regionally military balance demonstrates Israel's superiority in conventional arms, justifying the realistic perspective of Israeli foreign policy.<sup>116</sup>

The new Islamic regime of Mohammed Morsi is linked to Hamas in Gaza via the Muslim Brotherhood Party,<sup>117</sup> while keep foreign relations with Israel high in the political agenda, in order to preserve the electoral support during the transition period.<sup>118</sup> In addition, the Egyptian President seeks to militarize Sinai Peninsula and it is obvious that Israel will react.<sup>119</sup> However, Netanyahu's government has adopted policies that are meant to help Israel defend against the potential deterioration in

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<sup>112</sup> An estimation of the political reasons that led to the interruption of the agreement with Israel is given in Bar'el, Z., "Termination of Israeli-Egyptian Natural Gas Agreement Serves Dangerous Precedent", Haaretz, April 23, 2012, available at: <http://www.haaretz.com/news/diplomacy-defense/termination-of-israeli-egyptian-natural-gas-agreement-serves-dangerous-precedent-1.425942> (accessed in 14 Sep 2012). For an economic analysis of this agreement, see Siddig, K., and Grethe, H., "The Natural Gas Sector in the Post Revolution Egypt", accepted paper for presentation at the 15th GTAP Conference "New Challenges for Global Trade and Sustainable Development", World Trade Organization (WTO), Geneva, Switzerland, June 27–29, 2012, available at: <https://www.gtapecon.purdue.edu/resources/download/5980.pdf> (accessed in 14 Sep 2012).

<sup>113</sup> "Sinai: Egypt Sends Reinforcements as Offensive Builds", BBC News, Middle East, Aug 9, 2012, available at : <http://www.bbc.co.uk/news/world-middle-east-19192629> (accessed in 14 Sep 2012).

<sup>114</sup> Cordesman, A., Burke, A. and Nerguizian, A., "The Arab-Israeli Military Balance : Conventional Realities and Asymmetric Challenges", Center for Strategic and International Studies (CSIS), June 29, 2010, p.39, available at: [http://csis.org/files/publication/100629\\_Arab-IsraeliMilBal.pdf](http://csis.org/files/publication/100629_Arab-IsraeliMilBal.pdf) (accessed in 14 Sep 2012).

<sup>115</sup> "The World Factbook", CIA.

<sup>116</sup> See tables in Cordesman, A., Burke, A. et al, p.12, p.24.

<sup>117</sup> Brotherhood is the Muslim political party, whose candidate, Mohamed Morsi, was the winner of the first competitive Presidential elections in June 2012 with 51,7%, in Saman, E., "Muslim Brotherhood (Egypt)", The New York Times, September 14, 2012, available at: [http://topics.nytimes.com/top/reference/timestopics/organizations/m/muslim\\_brotherhood\\_egypt/index.html](http://topics.nytimes.com/top/reference/timestopics/organizations/m/muslim_brotherhood_egypt/index.html) (accessed in 14 Sep 2012).

<sup>118</sup> An analysis about the new challenges that Morsi's regime faces, see Brown, N., "Egypt's Ambiguous Transition", Carnegie Endowment, September 6, 2012, available at : <http://carnegieendowment.org/2012/09/06/egypt-s-ambiguous-transition/drsi#> (accessed in 14 Sep 2012).

<sup>119</sup> Eilam, E., "Egypt : New Government, Old Challenges", Defense and Security Analysis, Routledge, Vol. 28, Iss. 2, May 11, 2012, p.190.



relations with Egypt. It seems that Israel prioritizes the reliability of gas supply, which will commence from Tamar field in 2013, and the formation of pro-West alliances, like this with Cyprus.

## **4.2. Natural Gas Challenges Turkish Aspirations**

### **4.2.1. Turkish Energy Policy**

The end of the 20<sup>th</sup> century found Turkish Republic as a growing regional power in the Middle East.<sup>120</sup> Turkey is located at the crossroads of Asia and Europe, which makes it of high geopolitical significance. In addition, Turkey managed to develop a robust economy,<sup>121</sup> while the dynamics of internal politics and its desire to ensure the stability and regional safety in the post-Arab spring Middle East, gave Turkey a key role in the region.<sup>122</sup> The rise to power of the Islamic rooted Justice and Development Party (AKP: *Adalet ve Kalkınma Partisi*) in 2002, inaugurated a new secular, pro Western policy, which would led to the Turkish liberal democracy.<sup>123</sup> Tagip Erdogan, the Turkish Prime Minister who enjoys for a third term great popular support, promote a high profile diplomatic, political and economic role for Turkey in the Middle East.

Turkish energy politics are a facet of its strategy, the neo-Ottoman strategy.<sup>124</sup> Professor Ahmet Davutoglu, the current Turkish Foreign Minister, is considered to be the architect of this strategy, which lies on its location in geopolitical areas of influence and its historical legacy of the Ottoman Empire (The “*Strategic Depth*”).<sup>125</sup> The Turkish energy strategy aims at the use of its location as an energy corridor,

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<sup>120</sup> There is a great literature about the political history of modern Turkey; indicatively : Zurcher, E.(2003), *“Turkey : A Modern History”*, Tauris and Co Ltd., New York, 2<sup>nd</sup> ed.; Kedourie, S. (1999), *“Turkey Before and After Atatürk : Internal and External Affairs”*, Frank Cass Publishers, New York; Ahmad, F.(1993), *“The Making of Modern Turkey”*, Routledge, London, available at: <http://psi301.cankaya.edu.tr/uploads/files/Feroz%20Ahmad%20Making%20of%20Modern%20TR%281%29.pdf> (accessed in 20 Sep 2012).

<sup>121</sup> From 1999, Turkey is member of G20, which includes both developed and emerging economies, available at: <http://www.g20.org/en/members>, (accessed in 20 Sep 2012).

<sup>122</sup> Davutoglou, A.,” *Turkey’s Foreign Policy Vision: An Assessment of 2007*”, Insight Turkey, Vol 10, No 1, 2008, p.77, available at : <http://www.setav.org/ups/dosya/9595.pdf> (accessed in 20 Sep 2012).

<sup>123</sup> In practice, however, the notion of liberal democracy does differ in Turkey. For an analysis of the political Islam in Turkey, see Tank, P., *“Political Islam in Turkey: A State of Controlled Secularity”*, Turkish Studies, Vol.6, No 1, March 2005, pp.3-19, available at: <http://www.prio.no/sprtrans/-74227839/2005pt001.pdf> (accessed in 20 Sep 2012).

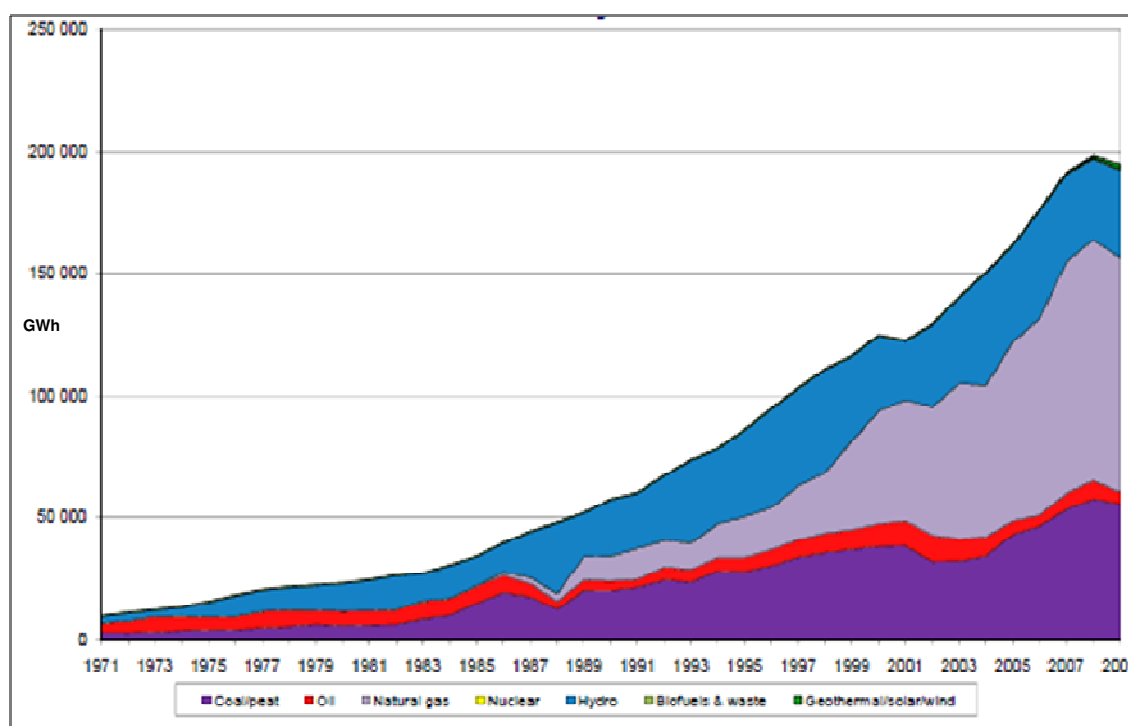
<sup>124</sup> Taspinar, O., (2008), pp 14-17.

<sup>125</sup> Walker, J., *“Learning Strategic Depth: Implications of Turkey’s New Foreign Policy Doctrine”*, Insight Turkey, Vol. 9, No 3, 2007, available at: [http://files.setav.org/uploads/Pdf/insight\\_turkey\\_vol\\_9\\_no\\_3\\_2007\\_joshua\\_walker.pdf](http://files.setav.org/uploads/Pdf/insight_turkey_vol_9_no_3_2007_joshua_walker.pdf) (accessed in 21 Sep 2012).

between Eastern rich energy countries (Caspian) and European energy markets. For Davutoglu, the control of regional energy flows can play a significant role in Turkey's strategy, solidifying its regional relevance and enhance its political importance. "*Zero problems with neighbors*" is an operational principle that should guide the Turkish policy makers.<sup>126</sup>

Turkey has a close geography to around 72% of the world's natural gas and 73% of oil reserves (Middle East and Caspian region).<sup>127</sup> However Turkey's proven oil and gas reserves seem to be very low, on account of this imported in 2009 about 90% of its total consumption.<sup>128</sup> Natural gas demand increased almost 50% from 2006-2011,<sup>129</sup> because of the significant progress in switching from coaled fired plants to

**Figure 5:** Electricity Generation by Fuel



**Source:** IEA (2011), available at: [http://www.iea.org/stats/pdf\\_graphs/TRELEC.pdf](http://www.iea.org/stats/pdf_graphs/TRELEC.pdf).

<sup>126</sup> According to Ahmet Davutoglu, there are three methodological and five operational principles that should drive the Turkish foreign policy, in Davutoglu, A, "*Turkey's Zero-Problems Foreign Policy*", Foreign Policy, May 20, 2010, available at: <http://jft-newspaper.aub.edu.lb/reserve/data/s11244/s11244.pdf> (accessed in 21 Sep 2012).

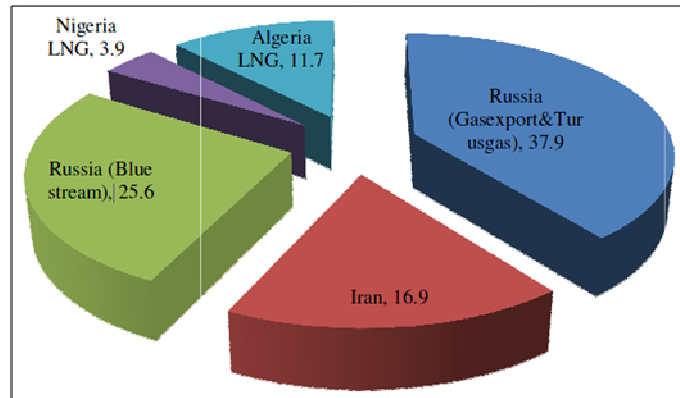
<sup>127</sup> "*Turkey's Energy Strategy*", Republic of Turkey, Ministry of Foreign Affairs, available at: <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa> (accessed in 21 Sep 2012).

<sup>128</sup> "*Turkey: Statistics*", US EIA, Feb 2011, available at: <http://www.eia.gov/countries/cab.cfm?fips=TR> (accessed in 21 Sep 2012).

<sup>129</sup> "*Statistical Review of World Energy*", BP, June 2012, p.23, available at : [http://www.bp.com/assets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2011/STAGING/local\\_assets/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2012.pdf](http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2012.pdf) (accessed in 21 Sep 2012).

natural gas plants in power generation (*see figure 5*).<sup>130</sup> In order to meet the increasing demand for natural gas, Turkey has signed pure casing agreements for twenty years period with many countries, such as the Russian Federation, Algeria, Nigeria and Iran (*see figure 6*) and imports natural gas through pipelines and LNG terminals in Izmir and Marmara (*see map 14*)<sup>131</sup>. Over the last decade, Turkey

**Figure 6:** Turkey's Natural Gas Imports by Country (Share %)



*Source:* Tonus, O. (2008).

has been the second country after China, in terms of natural gas and electricity demand's increase.<sup>132</sup> Turkey's energy demand is expected to grow 5.9 percent annually until 2025.<sup>133</sup>

The close geographic proximity to energy supplier countries has made Turkey to become a significant transit state. Many pipeline projects, realized or proposed, provides development and investment opportunities, contributes to European's energy supply security and upgrades its geopolitical location (*see map 6*). Moreover, Turkey aspires to become an energy hub,<sup>134</sup> not only to meet its rising domestic energy

<sup>130</sup> Shaffer, B., "Turkey's Energy Policies in a Tight Global Energy Market", Insight Turkey, Vol. 8, No 2, April - June 2006, available at: [http://belfercenter.hks.harvard.edu/files/insight\\_turkey\\_shaffer\\_energy.pdf](http://belfercenter.hks.harvard.edu/files/insight_turkey_shaffer_energy.pdf) (accessed in 21 Sep 2012), p.99.

<sup>131</sup> Tonus, O., "Turkey's Future Role as a Transit Country for Central Asia and Caspian Natural Gas Transfer to the EU : The Nabucco Project", 6th International Conference on Politics and International Affairs, 23-26 June 2008, Athens, available at: [http://bildiri.anadolu.edu.tr/papers/bildirimakale/106\\_901j22.pdf](http://bildiri.anadolu.edu.tr/papers/bildirimakale/106_901j22.pdf) (accessed in 23 Sep 2012).

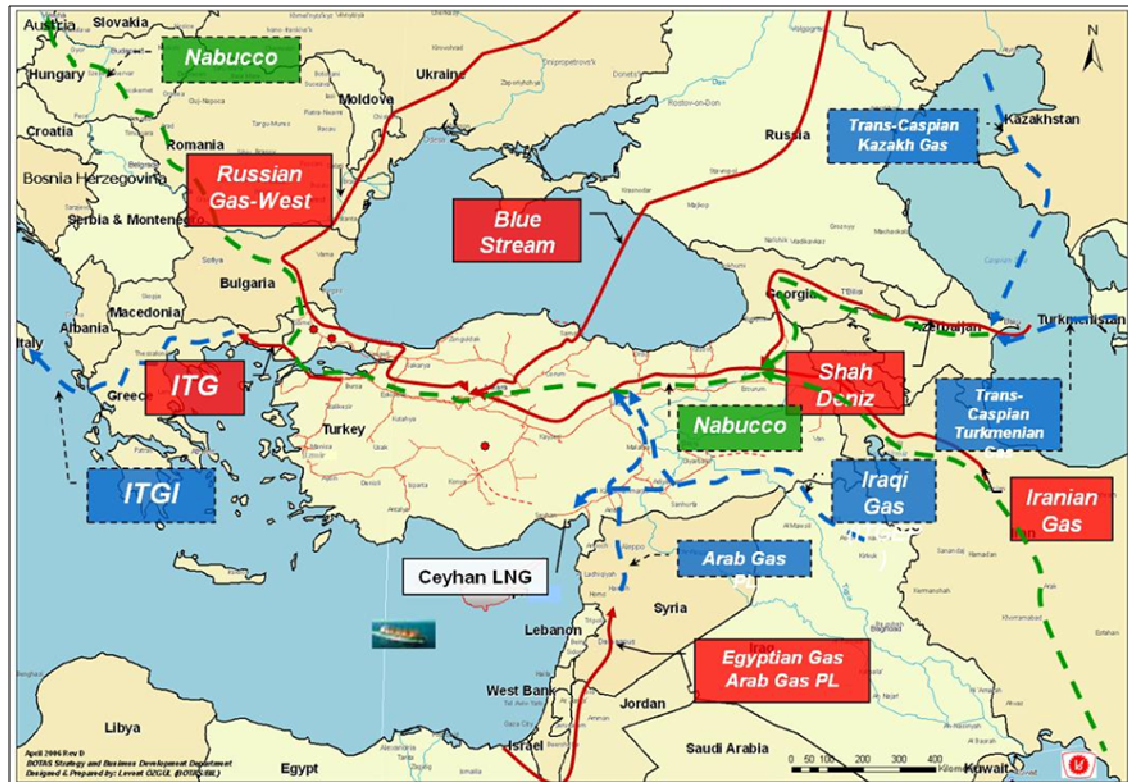
<sup>132</sup> Republic of Turkey, Ministry of Foreign Affairs, op.cit. For more information about bilateral purchase agreements, see Turkish Petroleum Pipeline Corporation (BOTAS), "Natural Gas Sale and Purchase Agreements", available at: <http://www.botas.gov.tr/index.asp> (accessed in 23 Sep 2012).

<sup>133</sup> Wietze, L., and Van Montfort, K., "Energy Consumption and GDP in Turkey: Is There a Cointegration Relationship?", Paper presented at EcoMod2005 International Conference on Policy Modeling, June 29 - July 2, 2005, Istanbul, Turkey, p.10, available at: <http://www.ecn.nl/docs/library/report/2005/rx05191.pdf> (accessed in 23 Sep 2012).

<sup>134</sup> Hub country buys another country's gas, stores it and re-sells it as its own gas to third countries at a higher price. A transit country, however, provides transit service through pipelines on its territory for an agreed (cost-based) fee, enabling the producer country to enter into direct commercial relations with the customers for its gas; for a further analysis, see Bilgin, M., "Turkey's Energy Strategy : What

demands, but also to export natural gas to additional markets. In the era of high energy demand, Turkey has the major advantage to use its role as leverage for close

**Map 6: International Gas Pipeline Projects**



**Source:** Turkish Petroleum Pipeline Corporation (BOTAS), available at: <http://www.botas.gov.tr/index.asp>.

cooperation with neighboring countries and EU.<sup>135</sup> Nevertheless, a number of risks are inherent in the energy hub role.<sup>136</sup>

#### 4.2.2. The Regional Tension with Cyprus

The Turkish invasion in Cyprus in 1974 has made Turkey the major interlocutor in Cypriot internal political affairs. Their longstanding hostility is closely related to the

*Difference Does it Make to Become an Energy Transit Corridor, Hub or Center?*, UNISI Discussion Papers, No 23, May 2010, available at: <http://www.ucm.es/info/unisci/revistas/UNISCI%20DP%2023%20-%20BILGIN.pdf> (accessed in 23 Sep 2012).

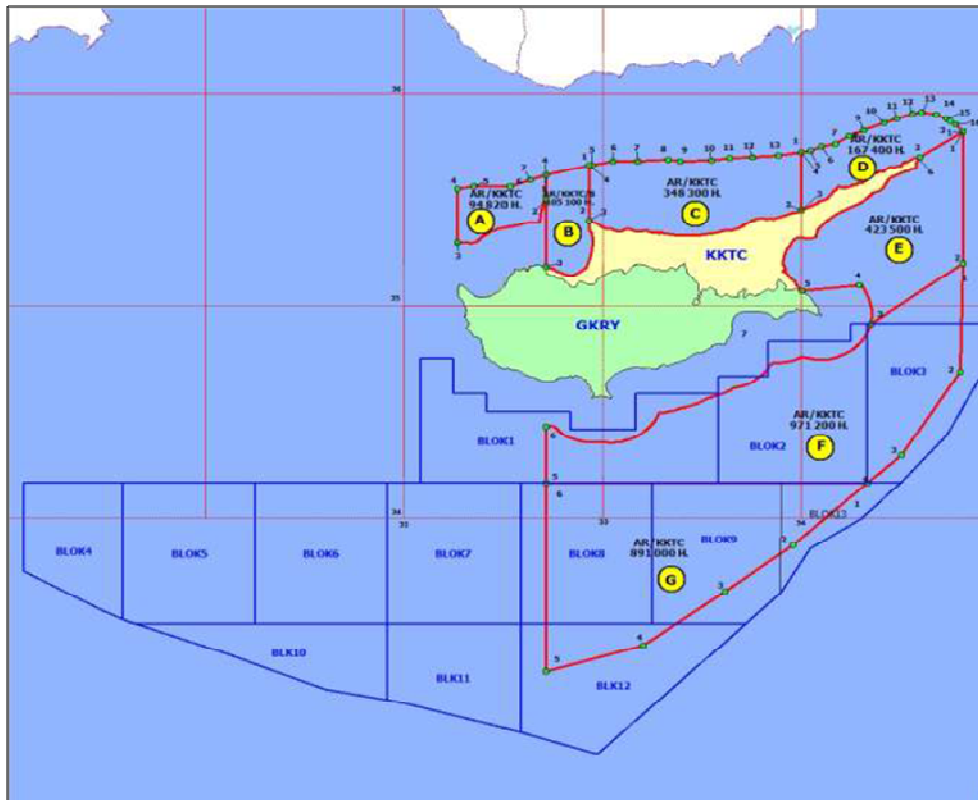
<sup>135</sup> Abbasov, G. F., "Turkish Natural Gas Hub and Energy Security : Theory and Practice", Political Reflection Magazine, Center for Strategic Research and Analysis, Vol.3, No.3, June-July-August 2012, available at: [http://cesran.org/index.php?option=com\\_content&view=article&id=1460&Itemid=224&lang=en](http://cesran.org/index.php?option=com_content&view=article&id=1460&Itemid=224&lang=en) (accessed in 23 Sep 2012).

<sup>136</sup> About risk in Turkey's role as an energy hub, see Shaffer, B. (2006), pp. 102-103.

suspicion and distrust that both sides have historically cultivated.<sup>137</sup> In 1983, the Turk Cypriots declare northern Cyprus as Turkish Republic of Northern Cyprus (TRNC) and recognized only by Turkey. Cypriot problem became more complicated after the accession of the Cypriot island in EU (2004) and the decision of EU leaders to start accession negotiations with Turkey from October 2005.<sup>138</sup>

Recent gas discoveries heightened tensions between Turkey and Cyprus and raised legal issues over the demarcation of maritime borders. Turkey does not recognize the Republic of Cyprus and the bilateral delimitation agreements between Cyprus and Egypt, Israel and Lebanon, without a “*comprehensive solution to the Cyprus problem*”.<sup>139</sup> Moreover, TRNC signed a delimitation agreement with Turkey in

**Map 7: The Overlapping of Turkish Cypriot Blocks with Greek Cypriot**



**Source:** Erciyes, C., “*Maritime Delimitation & Offshore Activities in the Eastern Mediterranean: Legal and Political Perspectives, Recent Developments*”, Presentation, Ankara, March 21, 2012, available at: [http://www.mfa.gov.tr/site\\_media/html/maritime\\_delimitation.pdf](http://www.mfa.gov.tr/site_media/html/maritime_delimitation.pdf).

<sup>137</sup> For a detailed review of the Cypriot problem, see Hannay, D. (2005), “*Cyprus: The Search for a Solution*”, I.B.Tauris, London.

<sup>138</sup> For more information about the relation of Turkey with EU, see “*Countries Preparing to Join: Turkey*”, European Commission, August 13, 2012, available at : [http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey/index\\_en.htm](http://ec.europa.eu/enlargement/countries/detailed-country-information/turkey/index_en.htm) (accessed in 24 Sep 2012).

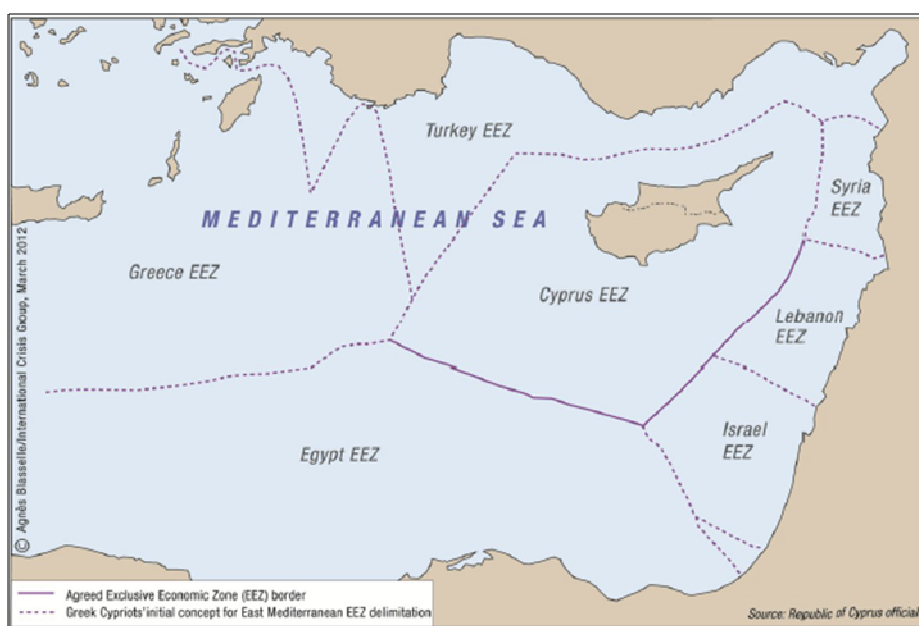
<sup>139</sup> Ögütçü M., “*Rivalry in the Eastern Mediterranean: The Turkish Dimension*”, Policy Brief, GMF, June 2012, p.2, available at: [http://www.gmfus.org/wp-content/blogs.dir/1/files\\_mf/1339171647/Ogutcu\\_EasternMedRivalry\\_Jun12.pdf](http://www.gmfus.org/wp-content/blogs.dir/1/files_mf/1339171647/Ogutcu_EasternMedRivalry_Jun12.pdf) (accessed in 24 Sep 2012).



September 2011<sup>140</sup> and issued a license for explanatory drilling to the Turkish Petroleum Corporation (TPAO).<sup>141</sup> Turkish Cypriot Blocks which granted to TPAO overlap with the Greek Cypriot Blocks that Cyprus announced in the Second Licensing Round (*see map 7*).

Turkey believes that its long coastline entitles it to assert a large share of maritime zone, and view with suspicion the common Greek – Cypriot claims. In particular, Turkey challenge the EEZ of the small Greek island Kastellorizo (*see map 8 & 9*) and argue that the conflict “*should be resolved on the basis of equity and in the light of all the relevant circumstances, taking into account the respective importance of the interests involved to the parties...*”.<sup>142</sup> It is clear that Turkey keeps the discussion about maritime borders open, in order to negotiate in case of future energy resource discoveries.

**Map 8:** Maritime Boundaries of the Republic of Cyprus



**Source:** Giamouridis, A. “*The Offshore Discovery in the Republic of Cyprus: Monetization Prospects and Challenges*”, The Oxford Institute for Energy Studies, July 2012, p.16, available at : [http://www.oxfordenergy.org/wpcms/wp-content/uploads/2012/07/NG\\_65.pdf](http://www.oxfordenergy.org/wpcms/wp-content/uploads/2012/07/NG_65.pdf).

<sup>140</sup> Bursch, J., “*Turkey-North Cyprus Gas Deal Set to Raise Regional Tensions*”, Reuters, September 21, 2011, available at: <http://www.reuters.com/article/2011/09/21/us-turkey-cyprus-idUSTRE78K5AC20110921> (accessed in 24 Sep 2012).

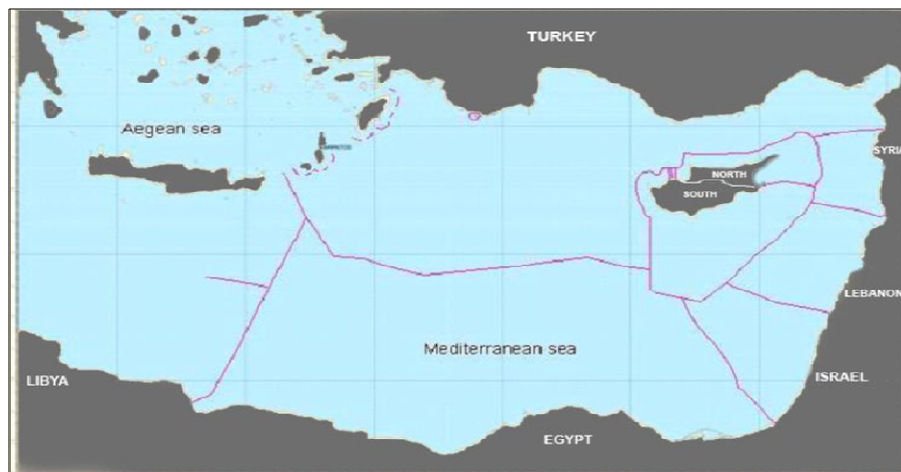
<sup>141</sup> “*TPAO and Ministry of Economy and Energy of TRNC Partnership for Petroleum Services and Production*”, TPAO, available at : [http://www.tpa.gov.tr/tp2/sub\\_en/sub\\_news.aspx?id=28](http://www.tpa.gov.tr/tp2/sub_en/sub_news.aspx?id=28) (accessed in 24 Sep 2012).

<sup>142</sup> UNCLOS, article 59, available at: [http://www.un.org/Depts/los/convention\\_agreements/texts/unclos/unclos\\_e.pdf](http://www.un.org/Depts/los/convention_agreements/texts/unclos/unclos_e.pdf) (accessed in 24 Sep 2012).

Turkey is insisting on the rights of the Turk Cypriots in any energy operation in the islands offshore. Davutoglu warned Greek Cypriot government that Ankara will show “*the appropriate reaction*” in case of offshore drillings.<sup>143</sup> In addition, the Turkish Prime Minister Erdogan, threatened to turn out international oil and gas companies, if they cooperate with Greek Cypriots on the Mediterranean exploration.<sup>144</sup> To underline its objections, Turkey provocatively sent warships near the Cypriot Aphrodite field in December 2011.<sup>145</sup> Nevertheless, the Israel-Cyprus cooperation changes the balance of powers and illustrates the risk if escalation arising from rival claims in the Eastern Mediterranean.

The Turkish assertive regional behavior is based on the political realism that its foreign policy has adopted.<sup>146</sup> Turkey understands that their chance to join EU decreases as much as Cyprus is free to develop. Furthermore, Northern Cyprus might

**Map 9: Turkish EEZ Maritime Zone**



**Source:** Ozturk, B., & Baseren, S., “*The Exclusive Economic Zone Debates in the Eastern Mediterranean Sea and Fisheries*”, Journal of Black Sea/ Mediterranean Environment, Vol 14, 2008, p. 81, available at : <http://www.blackmeditjournal.org/blackmeditjournal.org/pdf/1-20bayram%20hoca%20makale.pdf>.

<sup>143</sup> “*Turkey Warns Greek Cyprus Against Hydrocarbon Drill*”, Today's Zaman, August 5, 2011, available at: <http://www.todayszaman.com/news-252815-turkey-warns-greek-cyprus-against-hydro-carbon-drill.html> (accessed in 24 Sep 2012).

<sup>144</sup> “*Turkey Ups Ante in East Med Gas Row with Greek Cyprus*”, Today's Zaman, September 22, 2011, available at: [http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=257634](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=257634) (accessed in 24 Sep 2012).

<sup>145</sup> Chadjigeorgiou, S., “*Turkish Warships Escalate Tension in Eastern Mediterranean, Dangerously – Report*”, Cyprusnetnewsreport.com, December 24, 2011, available at: <http://www.cypusnewsreport.com/?q=node/5084> (accessed in 24 Sep 2012).

<sup>146</sup> Theofylactou, D., “*Geopolitics, Turkey's EU Accession Course and Cyprus: Power Balances and 'Soft Power' Calculations*”, South-Eastern European and Black Sea Studies, Routledge, London, Vol.12, Iss.1, March 13, 2012, p.106.

be no longer dependent on Turkey's subsidies, which could diminish Turkey's political influence and have been used as a leverage to demand concessions regarding the Turkish population.<sup>147</sup>

Finally, the strategic alliance of Cyprus with Israel cause serious problems in Turkish foreign policy, because has to confront traditional Israeli alliances, like US. The prevalent zero-sum game logic of both countries and the Turkish military structure poses a potentially serious threat to the stability and the security of Eastern Mediterranean.

#### **4.2.3. The Deteriorating Turkish-Israeli Relations**

The relations between the Turkey and Israel were generally positive since the establishment of Israel. Turkey was the first Muslim country that recognized the Jewish state. The uncertainty about the future of the North Atlantic Treaty Organization (NATO) after the end of Cold War, led Turkey search for new allies in the Middle East.<sup>148</sup> The strategic alliance with Israel counterbalanced Syria, Iraq and Iran, which were supporters of the Kurdish separators (PKK) and aspired to export the Islamist reactionism (fundamentalism).<sup>149</sup> Furthermore, Turkey benefited from the numerous military agreements between the two countries, that modernized the Turkish military equipment and upgraded its intelligence and counterterrorism capabilities.<sup>150</sup> For Israel, forming close relations with pro Western, secular – democratic Turkey, was an opportunity to end its regional isolation and break out of the hostile ring of Arabic-speaking neighbors. Besides, both countries had the common threat perception of radical Islam. The government of the Muslim leader

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<sup>147</sup> Blank, S. (2011).

<sup>148</sup> Turkey paid particular attention in regional cooperation and multilateralism in foreign affairs, like the involvement in the Gulf War and implementing regional arrangements as Black Sea Economic Cooperation (BSEC), in Karaosmanoglu, A., "*The Evolution of the National Security Culture and the Military in Turkey*", Journal of International Affairs, Vol.54, No 1, Fall 2000, p.210, available at : <http://www.sbu.yildiz.edu.tr/~faksu/Fuatyayinlar/TDPIIdocs/alikaraosmanoglu.pdf> (accessed in 26 Sep 2012).

<sup>149</sup> Alterman, J., and Malka H., "*Shifting Eastern Mediterranean Geometry*", The Washington Quarterly, Vol. 35, No 3, Summer 2012, p.114, available at: [http://csis.org/files/publication/twq12\\_SummerAltermanMalka.pdf](http://csis.org/files/publication/twq12_SummerAltermanMalka.pdf) (accessed in 26 Sep 2012); Bir, C. and Sherman, M., "*Formula for Stability : Turkey Plus Israel*", The Middle East Quarterly, Vol.9, No 4, Fall 2002, pp. 23-32, available at : <http://www.meforum.org/511/formula-for-stability-turkey-plus-israel> (accessed in 26 Sep 2012).

<sup>150</sup> The military exports from Israel to Turkey (1992-2009) amounts to \$722 m, see Stockholm International Peace Research Institute (SIPRI), "*SIPRI Arms Transfers Database: Arm Exports from Israel*", available at: [http://armstrade.sipri.org/armstrade/html/export\\_values.php](http://armstrade.sipri.org/armstrade/html/export_values.php) (accessed in 26 Sep 2012).



Necmettin Erbakan (1996-1997) did not hindered the growing cooperation, which expanded until 2009.<sup>151</sup>

In the Turkish Presidential elections of 2002, the Islamic rooted AKP become the party of government. Despite its pro-EU orientation, it showed its Islamic sensitivity with respect to the Palestinian problem.<sup>152</sup> However, both countries maintained their strategic, political and economic relations until 2009, though there was a growing tension in the diplomatic level.<sup>153</sup> Two major incidents considered to be milestones in the radical change of their relations: first, the harsh criticism to Simon Peres, the Israeli President, about Gaza, during the World Economic Forum in Switzerland (January 29, 2009), when Prime Minister Erdogan left the panel saying that he would never return to Davos;<sup>154</sup> second, the ‘Mavi Marmara’ flotilla incident (May 2010), when Israeli soldiers killed nine Turkish activists aboard, when the flotilla attempt to break the Israel’s blockage of Gaza.<sup>155</sup> Turkey recalled its ambassador and demanded the end of Gaza blockage as a condition for restoring their diplomatic relations.

The escalation of the tension between the two countries also expanded in military level. In Aug 2009, few months after the Davos incident, Turkey, Israel and US executed a joint military exercise called ‘Reliant Mermaid’, focusing on search and rescue operations involving naval ships and aircrafts.<sup>156</sup> However, in October 2009, Ankara excluded Israel from the Exercise ‘Anatolian Eagle’, which included NATO and Italian forces, claiming that the government acted as a ‘*spokesman for the conscience of the people*’ and that the Turkish people did not want Israel to participate

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<sup>151</sup> Erbakan considered Israel as a “*timeless enemy*” and “*a cancer in the heart of the Arab and Muslim world.*”, in Pipes, D., “*A New Axis : The Emerging Turkish – Israeli Entente*”, National Interest, Winter 1997-1998, available at: <http://www.meforum.org/pipes/293/a-new-axis-the-emerging-turkish-israeli-entente> (accessed in 26 Sep 2012).

<sup>152</sup> About the Turkish diplomacy and the Palestine question, see Aras, B., “*Turkey and the Palestine Question*”, Policy Brief, Foundation for Political, Economic and Social Research (*Siyaset, Ekonomi ve Toplum Araştırmaları Vakfı*, SETA), January 2009, No 29, available at: [http://www.bulentaras.com/fp/files/policy\\_brief27.pdf](http://www.bulentaras.com/fp/files/policy_brief27.pdf) (accessed in 26 Sep 2012).

<sup>153</sup> For a detailed analysis of the escalation of the crisis in the relations between Turkey and Israel, see Eligur, B., “*Crisis in Turkish-Israeli Relations (December 2008-June 2011): From Partnership to Enmity*”, Middle East Studies, Routledge, London Vol.48, No 3, May 2012, pp.429-459.

<sup>154</sup> Erdogan said to Peres: “*When it comes to killing, you know well how to kill*”, in Bennhold, K., “*Leaders of Turkey and Israel Clash on Davos Panel*”, The New York Times, January 29, 2009, available at : [http://www.nytimes.com/2009/01/30/world/europe/30clash.html?\\_r=0](http://www.nytimes.com/2009/01/30/world/europe/30clash.html?_r=0) (accessed in 26 Sep 2012).

<sup>155</sup> “*Israel Attacks Gaza Aid Fleet*”, Aljazeera, May 31, 2010, available at: <http://www.aljazeera.com/news/middleeast/2010/05/201053133047995359.html> (accessed in 26 Sep 2012).

<sup>156</sup> Curtis, N., “*Israeli, Turkish, U.S. Forces Gather to Begin Exercise Reliant Mermaid 2009*”, US European Command, August 18, 2009, available at : <http://www.eucom.mil/article/20172/israeli-turkish-us-forces-gather-begin-exercise> (accessed in 29 Sep 2012).

in the exercise.<sup>157</sup> The stoppage of their military cooperation was followed by the strengthening of Turkish ties with Syria and Iran: Turkey and Syria began their first-ever joint land force exercise in April 2009,<sup>158</sup> while Iran supported the Turkish – Chinese covertly drill, by allowing its airbases to be used for refueling of Chinese SU-27 warplanes.<sup>159</sup> Turkish foreign policy changed the regional balance of power and creates a new strategic, anti-Israel, environment, where Turkey has a prime role in Middle East.

The expansion of Turkish military power and the shift of Turkey's foreign policy with Eastern Mediterranean countries are closely connected with the militarization of energy geopolitics. Gas discoveries in Israel weaken the position of Turkey as the major energy player in the region. Ankara knows that the cheapest solution for the exploitation of newly found gas reserves is through its pipeline network (*see map 12*) and that capital intensive energy projects are difficult to materialize, because of the economic crisis. For that, Turkey is trying to force the Cypriot-Israeli energy prospects, based on two key elements: first, on a zero sum logic, that it is difficult for a state to improve its prospects for survival without threatening the survival of the other state, and second on a realistic perspective, according to which energy resources are maximize the power of a state and, as such, become main objective for military action. Nevertheless, the Turkish aspiration meets the opposition of global actors, which see with skepticism the new role of Turkey in the broader region of the Middle East.

### **4.3. Natural Gas as an Incentive for Cooperation for Cyprus**

#### **4.3.1. The Cypriot Energy Policy**

Cyprus has historically been a point of conflict between ancient enemies, Greece and Turkey. The island has been divided since Turkey invaded in 1974 and seized the

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<sup>157</sup> Statement of Tayyip Erdogan in al-Arabija television station, in Karabat, A., "*Turkey's Relations with Syria and Israel: Fatal Renunciation of the West*", Qantara.de, October 23, 2009, available at: <http://en.qantara.de/Fatal-Renunciation-of-the-West/6933c155/index.html> (accessed in 29 Sep 2012); Borger, J., "*Turkey Confirms it Barred Israel from Military Exercise Because of Gaza War*", The Guardian, October 12, 2009, available at : <http://www.guardian.co.uk/world/2009/oct/12/turkey-israel-military-gaza> (accessed in 29 Sep 2012).

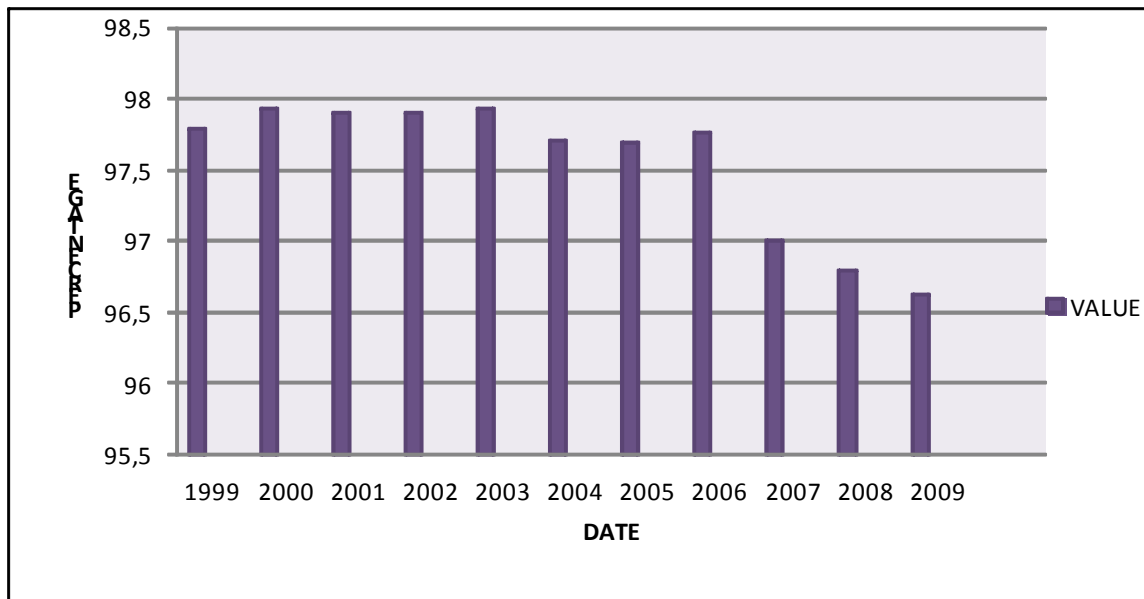
<sup>158</sup> "*Turkey and Syria to stage joint military exercise*", Today's Zaman, April 26, 2009, available at: [http://www.todayszaman.com/newsDetail\\_getNewsById.action?load=detay&link=173556](http://www.todayszaman.com/newsDetail_getNewsById.action?load=detay&link=173556) (accessed in 29 Sep 2012).

<sup>159</sup> Pfeffer, A., "*Growing ties between Turkey, China, Iran worry Israel and US*", Haaretz, October 7, 2010, available at: <http://www.haaretz.com/print-edition/news/growing-ties-between-turkey-china-iran-worry-israel-and-u-s-1.317583> (accessed in 29 Sep 2012).

northern sector, roughly 37% of the island. The occupied sector declared as Turkish Republic of Northern Cyprus (TRNC) recognized only by Ankara. On the contrary, the government of the Greek Cypriot south in Nicosia is recognized internationally.

The economy of the island is defined about the fact that it had no significant natural resources and its all energy needs is supplied through imports (*see figure 7*). Energy supply is totally dependent on oil (*see figure 8*), while market share for 2000 was about 40 % for commercial use and 35% for domestic household sector.<sup>160</sup> As a consequence, Cyprus faces serious problems during the tourist period, with excessive load growth because of the peak demand. The development of Cypriot tourist industry entail the increasing of energy consumption by an average 7,5 % annually,<sup>161</sup> when the final consumption of electricity increased approximately 80 % in the period 1995-2005.<sup>162</sup> In 2004, Cyprus accessed in European Union (EU) as a full member state and its energy activities are governed by the EU legislation.<sup>163</sup>

**Figure 7: Energy Imports Net (% of Energy Use)**



**Source:** Data collected from Index Mundi, available at : <http://www.indexmundi.com/facts/cyprus/energy-imports>.

<sup>160</sup> Koroneos, C., Fokaidis, P. and Moussiopoulos, N., “Cyprus Energy System and the Use of Renewable Energy Resources”, Energy, Elsevier Ltd., June 27, 2003, p.1891, available at: [http://www2.archimedes.ee/teadus/File/kasulikku\\_koostoo/2008/energia\\_cyprus\\_overwiev\\_2005\\_280108.pdf](http://www2.archimedes.ee/teadus/File/kasulikku_koostoo/2008/energia_cyprus_overwiev_2005_280108.pdf) (accessed in 15 Sep 2012).

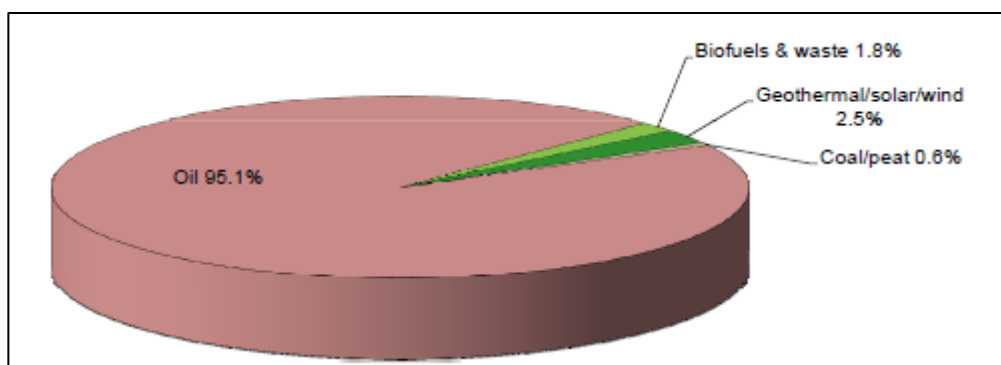
<sup>161</sup> According to Eurostat, the number of tourists from 2002 to 2011 has increased approximately 70 %, in “Statistics”, Eurostat, available at: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tin00045&plugin=1> (accessed in 15 Sep 2012).

<sup>162</sup> “National Energy Efficiency Action Plan”, Republic of Cyprus, Ministry of Commerce, Industry and Tourism, Nicosia, June 27, 2007, available at : [http://ec.europa.eu/energy/demand/legislation/doc/neeap/cyprus\\_en.pdf](http://ec.europa.eu/energy/demand/legislation/doc/neeap/cyprus_en.pdf) (accessed in 15 Sep 2012).

<sup>163</sup> For a background of the Cypriot and EU legislation about oil and gas activities, see “The Oil and Gas Regime in the Republic of Cyprus”, Energy Briefing, Ashurst, March 2012.

Cyprus implemented its sovereign rights to explore for hydrocarbons,<sup>164</sup> announcing the first Licensing Round offshore Cyprus in 15 February 2007.<sup>165</sup> Cypriots had already made bilateral agreements on the delimitation of its EEZ with neighboring countries (*see map 9*). In 2007, signed an EEZ delimitation agreement with Lebanon, albeit it has not been ratified by Lebanese government and is therefore

**Figure 8:** Share of Total Primary Energy Supply (est.2009)



**Source:** IEA, available at: [http://www.iea.org/stats/graphresults.asp?COUNTRY\\_CODE=CY](http://www.iea.org/stats/graphresults.asp?COUNTRY_CODE=CY).

not currently in force. On December 2010, Cyprus signed a delimitation agreement with Israel.<sup>166</sup> Although ratified and in force (since February 2011), the Cyprus-Israel agreement is disputed by Turkey and Lebanon.

On 28 December 2011, Cypriot President Demetris Christofias announced that Noble Energy Company estimated that the gas field “Aphrodite” in Block 12, amounted 5-8 tcf.<sup>167</sup> The discovery came few months later after the destruction of its main power station in Vasilikos on July 2011, which killed 12 Cypriots.<sup>168</sup> In addition, Cypriot authorities request financial support through International

<sup>164</sup> According to Directive 94/22/EC, in European Parliament, “*Directive 94/22/EC*”, Official Journal, L 164, June 30, 1994, pp. 3-8, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31994L0022:EN:HTML> (accessed in 15 Sep 2012).

<sup>165</sup> “*Hydrocarbon Exploration: First Licensing Round (2007)*”, Republic of Cyprus, Ministry of Commerce, Industry and Tourism, available at: <http://www.mcit.gov.cy/mcit/mcit.nsf/All/FE3EB5707ADA0E6EC225771B0035B0D2?OpenDocument> (accessed in 15 Sep 2012).

<sup>166</sup> United Nations (UN), “*Maritime Space: Maritime Zones and Maritime Delimitation*”, UN, Division for Ocean Affairs and the Law of the Sea, available at: [http://www.un.org/Depts/los/LEGISLATIONANDTREATIES/PDFFILES/TREATIES/cyp\\_isr\\_eez\\_2010.pdf](http://www.un.org/Depts/los/LEGISLATIONANDTREATIES/PDFFILES/TREATIES/cyp_isr_eez_2010.pdf) (accessed in 15 Sep 2012).

<sup>167</sup> Lee, M. and Orphanidis, S., “*Noble’s Cyprus Gas Find May Be Complicated by Turkey*”, Bloomberg, December 29, 2011, available at: <http://www.bloomberg.com/news/2011-12-28/noble-s-cyprus-gas-discovery-may-be-complicated-by-turkey-2-.html> (accessed in 15 Sep 2012).

<sup>168</sup> “*Massive Explosion at Cyprus Naval Base*”, The Independent, July 2011, available at: <http://www.independent.co.uk/news/world/europe/massive-explosion-at-cyprus-naval-base-2311827.html> (accessed in 15 Sep 2012).

Monetary Fund (IMF),<sup>169</sup> because the contagion from the uncontrollable economic crisis of the Eurozone hit Greek Cypriot Banks, highly exposed to the Greek banking system.<sup>170</sup> Gas discoveries give Cyprus a great opportunity to develop its energy offshore resources and boost investments in the island.

In February 2012, Ministry of Commerce, Industry and Tourism, announced the second Licensing Round offshore Cyprus,<sup>171</sup> in which participated group of companies “*with financial capacities and technical-commercial skills*”, like the French Total and the Italian ENI.<sup>172</sup> New discoveries could make the island potential natural gas exporter, modernize its economy and enhance energy outlook. Significant benefits could also forgo, if Cyprus realize economies of scale through the energy cooperation with Israel and International Oil Companies (IOC).

#### **4.3.2. The Cyprus-Israel Alliance**

Foreign relations between the two countries dated from their establishment as independent states. Cyprus was a host for thousands of Jewish refugees from Europe that they could not arrive to Palestine. In 1974, the Turkish invasion brought the *de facto* partition of the island, while the close defense relationship of Israel with Turkey led Cyprus to back Palestinians during the Arab-Israel War. Recent gas discoveries came at the same time that foreign relation between Israel and Turkey deteriorated, after the World Economic Forum in Davos.<sup>173</sup> The fundamental changes in the relations with Israel were triggered from the potential exploitation of gas reserves as well as the explosion that destroyed the power plant of Vasilikos.

Both countries greeted the announcement of Cypriot gas discoveries with enthusiasm. Besides, Cypriot-Israel approach had officially initiated in March 2011,

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<sup>169</sup> “*Statement by IMF Managing Director Christine Lagarde on Cyprus*”, IMF, Press Release No. 12/240, June 27, 2012, available at: <http://www.imf.org/external/np/sec/pr/2012/pr12240.htm> (accessed in 15 Sep 2012).

<sup>170</sup> The exposure of Cypriot banks to Greek banks is estimated to be in the range of €7-10 billion, in Emerson, M., “*Fishing for Gas and More in Cypriot Waters*”, Policy Brief, The Center for European and Policy Studies (CEPS), July 2012, p.2, available at: <http://www.ceps.eu/book/fishing-gas-and-more-cypriot-waters> (accessed in 15 Sep 2012).

<sup>171</sup> “*Notice Announcing the Second Licensing Round Offshore Cyprus Concerning the Authorization for Hydrocarbons Exploration*”, Official Journal of the European Union, February 11, 2012, available at : [http://www.mcit.gov.cy/mcit/mcit.nsf/all/934821A2162C709EC22579AA0029ED64/\\$file/Announcement-Invitation\\_2012%20%28EN%29.pdf?openelement](http://www.mcit.gov.cy/mcit/mcit.nsf/all/934821A2162C709EC22579AA0029ED64/$file/Announcement-Invitation_2012%20%28EN%29.pdf?openelement) (accessed in 15 Sep 2012)

<sup>172</sup> Giamouridis, A.(2012), p. 24.

<sup>173</sup> “*Recep Erdogan Storms Out of Davos After Clash With Israeli President over Gaza*”, The Guardian, January 30, 2009, available at : <http://www.guardian.co.uk/world/2009/jan/30/turkish-prime-minister-gaza-davos> (accessed in 14 Sep 2012).

with the first visit of the President of the Republic of Cyprus in Israel.<sup>174</sup> The meetings with the political leadership heralded the beginning of a new cooperation between the two countries at a political and economic level, especially in the exploitation of hydrocarbons in broader region. However, the communist President did not ignore to visit Ramallah, laid a wreath at the grave of Yasser Arafat and sign bilateral agreements with Palestinian Authority (PA).<sup>175</sup>

Cypriot energy policy is based primarily on practical considerations rather than ideological and historical premises. On one side, the alliance with Israel seeks for support against Turkish reactions and admits the validity of Israeli military forces to protect the energy resources of the island. In October 2011, Israeli Air-Force conducted military exercises over Nicosia's Flight Information Region (FIR) in cooperation with Cypriot government, while special Israeli airplanes collect data from airports and determined potential landing points for all types of airplanes.<sup>176</sup> In addition, Israeli military helicopter flew over the Turkish research ship 'Piri Reis', during its sailing near the 'Aphrodite' gas field.<sup>177</sup> According to Anatolia News Agency, Israel seeks to deploy military troops in Cyprus to protect its energy projects.<sup>178</sup> Speaking with military terms, the strategic realignment with Israel can ensure a safe environment for infrastructure investments.<sup>179</sup>

On the other side, Israel anticipates a closer cooperation with Cyprus in energy sector, which coincide with the decline in the Turkish-Israel ties and the termination of gas supply arrangement with Egypt. Simon Peres, the President of the Jewish state, visited Cyprus in November 2011 and stated that joint natural gas project could have

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<sup>174</sup> Golan, A., "*Friends on the East-West Seam*", Haaretz, March 11, 2011, available at : <http://www.haaretz.com/weekend/week-s-end/friends-on-the-east-west-seam-1.348565> (accessed in 15 Sep 2012).

<sup>175</sup> "*Cypriot President Arrives in Ramallah*" Palestinian News and Info Agency, March 15, 2011, available at: <http://english.wafa.ps/index.php?action=detail&id=15506> (accessed in 16 Sep 2012), Morley, A., "*Cyprus Donates 1 Mln USD to Palestinians*", Cyprusnewsreport.com, March 16, 2011, available at : <http://www.cypusnewsreport.com/?q=node/3887> (accessed in 16 Sep 2012)

<sup>176</sup> "*Israeli Exercises in Cyprus*", Defencegreece.com, October 11, 2011, available at: <http://www.defencegreece.com/index.php/2011/10/closer-military-cooperation-between-israel-and-cyprus/> (accessed in 16 Sep 2011).

<sup>177</sup> "*Turkey Denies Israeli Jets Harassed Turkish Ship Off East Mediterranean*" Today's Zaman, September 30, 2011, available at : <http://www.todayszaman.com/news-258413-turkey-denies-israeli-jets-harassed-turkish-ship-off-east-mediterranean.html> (accessed in 16 Sep 2012).

<sup>178</sup> "*Israel Seeks to Deploy 20,000 Commandos in Greek Cyprus*", Hurriyet, May 20, 2012, available at: <http://www.hurriyetdailynews.com/israel-seeks-to-deploy-20000-commandos-in-greekcyprus.aspx?pageID=238&nid=21160> (accessed in 17 Sep 2012).

<sup>179</sup> Israel hold 22 times more weapons than Cyprus and has 7 times more manpower availability, in "*Military Statistics : Cyprus vs Israel*", Nationmaster.com, available at: <http://www.nationmaster.com/compare/Cyprus/Israel/Military> (accessed in 16 Sep 2012).

positive effects in both economies.<sup>180</sup> Few months later, during the first-ever visit of Israeli Prime Minister to the island of Cyprus, Benjamin Netanyahu signed a cooperation agreement for the protection of natural gas drilling platforms.<sup>181</sup> The prospect of further cooperation between the countries, counterbalances the Turkey-Arab recent Islamic alliance, and creates a positive dynamic of cooperation with Greece and EU, not only in economic but also in political level.

The export of the energy findings depends on the commercial viability and investment requirements. Lawson Freeman, vice president for the Eastern Mediterranean at Texas-based Noble Energy, argued that *“there is a really compelling case for natural gas exports”*,<sup>182</sup> while Bini Zomer, director of corporate affairs at Noble Energy Mediterranean, claimed that Leviathan gas field *“should largely be exported”*.<sup>183</sup> In spite of Noble officials’ declarations, the available volumes for exports depend on political decisions which will produce different levels on demand in Israel and Cyprus.<sup>184</sup>

The raising question about export perspective is twofold: where to export and how. One way is by building pipelines infrastructure to supply regional market - like Palestine, Jordan and Lebanon - and connect it with the Arab Gas Pipeline (AGP) (*see map 5*). In this case, Israel has to invest in infrastructure to accommodate the domestic and the foreign supply. However, according to Zomer, *“the market is just not big enough to monetize your gas in a way that makes the investment worthwhile”*.<sup>185</sup>

Another alternative is to construct a subsea pipeline (about 1200 kilometers) to Greece from Cyprus, if combined with the Interconnector Turkey-Greece-Italy

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<sup>180</sup> Cashman, G., *“Peres, Cypriot Counterpart Discuss Gas Cooperation”*, The Jerusalem Post, November 3, 2011, available at : <http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=244297> (accessed in 16 Sep 2012).

<sup>181</sup> Kambas, M., and Rabinovitz, A., *“Netanyahu Discusses Energy Cooperation in Cyprus”*, Reuters, February 16, 2012, available at : <http://www.reuters.com/article/2012/02/16/israel-netanyahu-cyprus-idUSL5E8DG3PS20120216> (accessed in 16 Sep 2012).

<sup>182</sup> Rabinovitz, A., *“Natural Gas Fields Call on Israel to Allow Exports”*, Reuters, November 29, 2011, available at : <http://uk.reuters.com/article/2011/11/29/idUKL5E7MT21K20111129> (accessed in 16 Sep 2012).

<sup>183</sup> Udasin, S., *“New Natural Gas Wealth Means Historic Change for Israel”*, National Geographic News, July 3, 2012, available at : <http://news.nationalgeographic.com/news/energy/2012/07/120703-israel-new-natural-gas/> (accessed in 16 Sep 2012).

<sup>184</sup> Shaffer, B.(2011), p. 5383.

<sup>185</sup> On the contrary, few months ago the Israeli Minister of Energy and Water Uzi Landau claimed that *“the immediate export of natural gas will be to our neighbors the Palestinians and the Jordanians (...) an important step in building trust and peace in the region”*, in *“Natural Gas Exports Will First Go to Arab Neighbors”*, Cyprusgasnews, March 30, 2012, available at : <http://www.cypirusgasnews.com/id/?p=325> (accessed in 16 Sep 2012).

(ITGI),<sup>186</sup> supplying with natural gas the South Eastern European countries (*see map 10*).<sup>187</sup> This project would be technically difficult and demand additional

**Map 10:** Gas Export Option by Subsea Pipeline



**Source:** Karbuz, S., Presentation in the 12th Annual CIS Oil & Gas Summit, 14-16 May, 2012, Paris, available at: [http://core.theenergyexchange.co.uk/agile\\_assets/1729/03\\_Sohbet\\_Karbuz\\_OME\\_ENG.1.pdf](http://core.theenergyexchange.co.uk/agile_assets/1729/03_Sohbet_Karbuz_OME_ENG.1.pdf).

investment, which seems not possible at this stage due to funding constraints. In addition, European markets would prefer to import natural gas without involving transit countries, due to the obligatory dependence that may have.

Building an LNG plant in Cyprus, Israel or offshore would be another alternative to export great volumes of natural gas (*see map 11*). Such an infrastructure in Cyprus would transport large quantities of gas to European and global markets.<sup>188</sup> Definitely, this project would be profitable, but needs extra

<sup>186</sup> The pipeline between Turkey and Greece is known as Interconnector Turkey Greece (ITG), while the pipeline between Greece and Italy is known as Interconnector Greece Italy (IGI). For more technical information about ITGI, see “*Interconnection Turkey Greece Italy (ITGI) Pipeline*”, Hydrocarbons-technology.com, available at : <http://www.hydrocarbons-technology.com/projects/turkeygreeceitalypip/> (accessed in 16 Sep 2012).

<sup>187</sup> “*Eastern Mediterranean Gas: Source for Cooperation or Fuel for Conflict?*” Turkish Weekly, June 25, 2012, available at : <http://www.turkishweekly.net/op-ed/2985/eastern-mediterranean-gas-source-for-cooperation-or-fuel-for-conflict.html> (accessed in 16 Sep 2012).

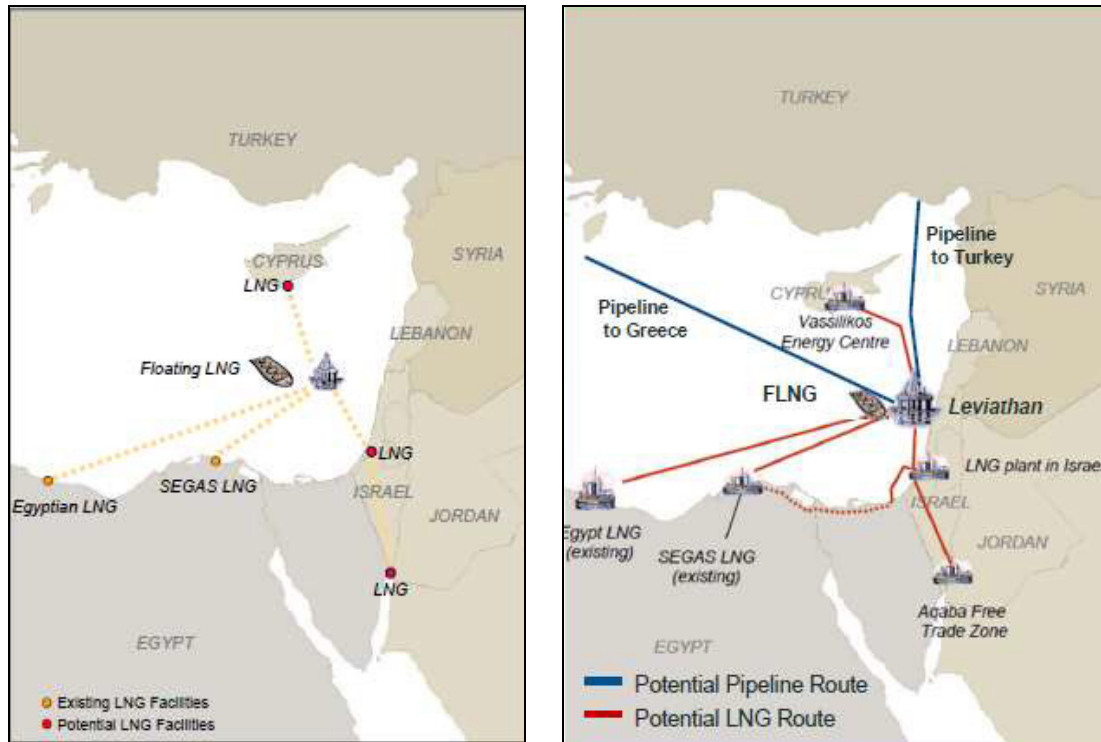
<sup>188</sup> Christofias, D., Speech at “*The 2nd Gulf Intelligence Levant Energy Forum*” under the title: “*The Future of Cyprus as an Energy Producer*”, Nicosia, June 26, 2012, available at: <http://www.moi.gov.cy/moi/pio/pio.nsf/All/1382D5A66191F2EBC2257A29004950EB?OpenDocument> (accessed in 16 Sep 2012). Deutsche Bank and Credit Agricole have already expressed a preliminary interest in investing this project, in “*Decision Already Taken for LNG Terminal*”, Cyprus Gas News, June 8, 2012, available at : <http://www.cypriusgasnews.com/id/?p=589> (accessed in 16 Sep 2012).



volumes from Israel and stable geopolitical environment.<sup>189</sup>

Liquefaction plant in Ashkelon, in Eilat (onshore) or offshore, would be a challenge due to environmental, security, and suitable space grounds.<sup>190</sup> However, the inter ministerial Committee led by Shaul Tzemach, director-general of the Energy Ministry, recommended “*that export facilities should be located in Israeli territory*”,

**Map 11, 12: Options of Gas Export Infrastructure**



*Source:* Karbuz, S. (2012).

if not, they will be allowed only “*in the framework of bilateral agreements between the two countries.*”<sup>191</sup> Domestic political support will play a key role in the development of multi-lateral cooperation and new gas resources exploitation.<sup>192</sup>

<sup>189</sup> “*Aphrodite’s Gift: Can Cypriot Gas Power a New Dialogue?*”, Crisis Group Europe Report N°216, April 2, 2012, p. , available at : <http://www.crisisgroup.org/~media/Files/europe/turkey-cyprus/cyprus/216-aphrodites-gift-can-cypriot-gas-power-a-new-dialogue.pdf> (accessed in 16 Sep 2012).

<sup>190</sup> See Natali, D., “*The East Mediterranean Basin: A New Energy Corridor?*”, Institute for National Strategic Studies (INSS), July 17, 2012, p.3, available at: <http://www.ndu.edu/inss/docuploaded/East%20Med%20Report-%20Nathali.pdf> (accessed in 16 Sep 2012), Barkat, A., “*Gas to Go*”, Globes, May 16, 2012, available at: <http://www.globes.co.il/serveen/globes/docview.asp?did=1000749636&fid=1724> (accessed in 16 Sep 2012).

<sup>191</sup> “*The Inter-ministerial Committee – Main Recommendations*”, Republic of Cyprus, Ministry of Energy and Water Resources, available at: <http://energy.gov.il/Subjects/NG/Documents/MainRecommendations.pdf> (accessed in 17 Sep 2012).

<sup>192</sup> Natali, D. (2012).

Both countries should provide the regulatory framework to attract foreign investments, expertise and technological assets. On one hand, building pipelines includes geopolitical interests of the various parties (Egypt, Jordan, Lebanon) that are involved and presuppose stable political environment. A pipeline route is often a subject of political arrangements and not the most economic route. On the other, LNG trade provides diversification and flexibility in cargo movements, but involves a chain of infrastructure (liquefaction, tankers, storage facilities, pipelines) that makes the investment capital intensive. The formation of further alliances, like this with Greece, could play a crucial role in the future gas exploitation plans.

#### **4.3.3. The Cyprus-Greece Alliance**

After the independence of Cyprus, its relations between the two countries were not stable, because of the divergent approaches that Greek governments had on the 'Cypriot Problem'.<sup>193</sup> The Western orientation of Greek government led Athens to stay away from 1963-1964 troubles in the island. During the military seized power in Athens, relations deteriorated further. Cypriot President Makarios became anathema to anticommunist regime in Greece and when he openly challenged junta's intervention in 1974, the coup led by Greek officers, ultimately resulted in the Turkish invasion.<sup>194</sup> After the restoration of civilian Greek government, Athens and Nicosia had different priorities in terms of Cypriot problem and its link to Greek-Turkish disputes in Aegean. Since the last two decades, their bilateral relations become closer.

Cyprus' accession to the European community constituted new trade possibilities by exporting and importing goods and services without customs boundaries, thus boosting imports and exports from both sides. Greece was the biggest supplier of products to Cyprus in 2010, with exports reaching 1.21 billion euros, or a quarter of all Cypriot imports. In the same year, imports from Cyprus to Greece came to 243.9 billion Euros, 18 % of all Cypriot exports.<sup>195</sup> The bilateral cooperation expands to military level; since 1994, Greece and Cyprus have adopted the Doctrine of the Joint

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<sup>193</sup> For a historical background of the 'Cypriot Problem', see Hannay, D.(2005), "*Cyprus: The Search for a Solution*", Tauris, New York, pp.1-47.

<sup>194</sup> Barkey, H. and Gordon, P, "*Cyprus: The Predictable Crisis*", The National Interest, Winter 2001-2002, available at : <http://www.brookings.edu/views/Articles/Gordon/2002cyprus.pdf> (accessed in 08 Dec 2012).

<sup>195</sup> Cyprus ranks in third behind Germany and Italy in terms of Greek exports, in "*Cypriot Investment in Greece is on the Slide*", e-kathimerini.com, August 28, 2011, available at: [http://www.ekathimerini.com/4dcgi/\\_w\\_articles\\_wsited\\_1\\_28/08/2011\\_403803](http://www.ekathimerini.com/4dcgi/_w_articles_wsited_1_28/08/2011_403803) (accessed in 10 Dec 2012).

Defense Area, improving cooperation and common training between armed forces.<sup>196</sup> Few months ago, in Aug 2012, Minister of National Defense of Greece Panos Panagiotopoulos visited Cyprus and stated that both Ministries should ensure “*first of all the great deterrent capability of Hellenism*”.<sup>197</sup> The close military relations between Athens and Nicosia are verified by the number of Cypriot cadets that study in the Hellenic Military Academy and the permanent Hellenic (Greek) Force in Cyprus (ELDYK) that exists in the island.

The confirmation of natural gas reserves in Cyprus’s EEZ offered a great opportunity in terms of energy security and economic prosperity. Greece is the closest ally of Cyprus that could promote, as a corridor, Cyprus’s natural gas in European countries. Greece has also a regasification plant in Revithousa (*see map 14*) that can make possible LNG imports from Cyprus. Although the Greek Government is still reluctant to delineate its EEZ, as a direct result of disputes with Turkey in Kastelorizo (*see map 8 & 9*), Athens issued a call for interested companies to submit offers for hydrocarbons research offshore Western coast of Greece.<sup>198</sup> If these researches demonstrate the existence of sufficient reserves of hydrocarbons, combined with the potential gas reserves offshore Crete,<sup>199</sup> both countries could develop a financially viable project that could change the geostrategic conversation.

The trilateral alliance of Cyprus, Greece and Israel has shaped a new energy triangle that has inevitably affected the regional balance of power.<sup>200</sup> This energy cooperation is of great importance, due to the bad economic conditions that Greece and Cyprus face, while for Israel is a matter of national security. On 4th of March 2012 already signed a memorandum of understanding (MoU) between Israel, Cyprus

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<sup>196</sup> In this context, any attack against the Republic of Cyprus would constitute a *casus belli* for Greece, in Dokos, T., “*Greek Security Doctrine in the Post-Cold War Era*”, A Journal of Foreign Policy Issues, 1998, available at : <http://www.hri.org/MFA/thesis/summer98/security.html> (accessed in 10 Dec 2012).

<sup>197</sup> “*Greece and Cyprus Commit to Closer Cooperation on Defense Issues*”, Hellenic Republic, Ministry of National Defense, August 31, 2012, available at : <http://www.mod.mil.gr/en/news-section/press-releases/6114-diloseis-yetha-panagiotopoulou-meta-to-peras-tis-sunadisis-tou-me-to-upam-kuprou-iliadi.html> (accessed in 10 Dec 2012).

<sup>198</sup> “*Procedure for Granting Exploration and Exploitation Licenses of Areas, on Permanent Basis*”, Hellenic Republic, Ministry of Environment, Energy and Climate Change, <http://www.ypeka.gr/Default.aspx?tabid=766&locale=en-US&language=el-GR> (accessed in 13 Dec 2012).

<sup>199</sup> Macridis, K., “*Offshore Hydrocarbon Exploration in Crete – a Review of the Facts*”, Hellenic Center for European and International Analysis (HELCEIA), May 26, 2011, available at : [http://www.elkeda.gr/index.php?option=com\\_content&view=article&id=914:26052011-off-shore-hydrocarbon-exploration-in-crete-a-review-of-the-facts&catid=46:english&Itemid=96](http://www.elkeda.gr/index.php?option=com_content&view=article&id=914:26052011-off-shore-hydrocarbon-exploration-in-crete-a-review-of-the-facts&catid=46:english&Itemid=96) (accessed in 12 Dec 2012).

<sup>200</sup> Stavris G., “*The New Energy Triangle of Cyprus-Greece-Israel: Casting a Net for Turkey?*”, Turkish Policy Quarterly, Vol.11, No 2, Summer 2012, available at: <http://turkishpolicy.com/dosyalar/files/2012-02stavris.pdf> (accessed in 11 Dec 2012).

and Greece to launch a trilateral cable project (“Euroasia Interconnector”) that will link Israel’s electricity supply with that of the European Union, through Cyprus and Crete.<sup>201</sup> Further natural gas findings in Greek EEZ could enhance the trilateral energy cooperation, protect Cyprus’ sovereign rights and provide Greece the opportunity to upgrade its geostrategic position in regard to Turkey. However, global actors are inevitably affected by the events in Eastern Mediterranean, which are directly linked to their interests.

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<sup>201</sup> The project will have a capacity of 2,000 megawatts at a depth of more than 2,000 meters, in Udasin S., *“Israel, Cyprus, Greece Sign Electric Cable Deal”*, Jerusalem Post, April 03, 2012 available at [http:// www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=260410](http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=260410) (accessed in 11 Dec 2012).

## 5. The Role of Global Actors

Middle East is defined not only by Islam and Arab culture, but also by the tradition of external interventions.<sup>202</sup> After the WW II, Great Powers penetrated in Middle East countries for commercial, cultural, or strategic influence and established close relations with selective local minorities. The creation of Israel contributed to the militarization of the region and encouraged external powers into “*a variety of formal and informal military alliances*”.<sup>203</sup> The end of the colonial era in the region has been marked by the Suez crisis, when Britain and France left Middle East under the influence of the dominant powers, US and USSR. The growing US-Soviet rivalries during the Cold War era separated local states in two juxtapose sides, pro US (Israel, Greece and Turkey) and pro USSR (Libya and Syria).

The collapse of the Soviet Union and the end of Cold War changed the regional balances. Libya, under Kaddafi and Syria, under Assad regime, lost the Russian support and found isolated in a pro US Middle East. Washington enjoyed more influence in the region than any other outside power, especially in the area of energy and security. However, during the last decade, US policy was challenged by the foreign policy of other outsiders.<sup>204</sup> Russian foreign policy looks for opportunities to increase its influence in the region, while European countries like Germany, France and UK seek to promote their national interests in the broader Middle East.

In this chapter we examine the role of global actors in light of the newly discovered natural gas reserves in Eastern Mediterranean. We focus on the changeover of the relations among Great Powers and the key energy players of the Middle East. In addition, we scrutinize how gas reserves offshore Israel add a new perspective in geostrategic dimension.

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<sup>202</sup> Henry, M. C., and Springborg, R.(2001), “*Globalization of the Politics of Development in the Middle East*”, Cambridge University Press, UK, p.8. For a historical background in the external interventions in the Middle East, see Hourani, A.(1981), “*The Emergence of the Modern Middle East*”, University of California Press, Los Angeles, available at: [http://www.google.gr/books?hl=el&lr=&id=j70zP5MyHO8C&oi=fnd&pg=PR9&dq=the+emergence+of+the+modern+middle+east&ots=TQyJExzQcg&sig=jLAXFIVZnVZnX\\_WITwQXw5C5Yfl&redir\\_esc=y#v=onepage&q=the%20emergence%20of%20the%20modern%20middle%20east&f=false](http://www.google.gr/books?hl=el&lr=&id=j70zP5MyHO8C&oi=fnd&pg=PR9&dq=the+emergence+of+the+modern+middle+east&ots=TQyJExzQcg&sig=jLAXFIVZnVZnX_WITwQXw5C5Yfl&redir_esc=y#v=onepage&q=the%20emergence%20of%20the%20modern%20middle%20east&f=false) (accessed in 04 Oct 2012).

<sup>203</sup> Ibid., p.10.

<sup>204</sup> For more information about the emerging of new actors in the Middle East, see Haas, R., “*The New Middle East*”, Foreign Affairs, November/December 2006, available at : <http://gees.org/documentos/Documen-01865.pdf> (accessed in 04 Oct 2012).

### 5.1. Russian Intervention in Eastern Mediterranean

The Middle East has always been a market for Russian interests. Until the end of the Cold War, Soviet regime was steadily increasing its influence over the Middle East by supporting Arab states (Syria, Egypt, Libya) politically and militarily. After 2001, the government of Vladimir Putin intensified Russian involvement in the region, supporting Iran's nuclear program and forgiving Syria 73% of its 13 billion dept, in 2005.<sup>205</sup> The discovery of natural gas reserves gives Russia the opportunity to intervene actively on the latest geopolitical developments of the region.

Russian policy in Syria resulted in the steadily deterioration of Soviet – Israeli relations.<sup>206</sup> However, after the Israel-Gaza conflict in 2008-2009, Moscow and Tel Aviv seem to come closer. Russian immigrants from the Former Soviet Union (FSU), that amount about one million, have form a pro-Russian lobby in Israel. The ascension of Avigdor Lieberman, an FSU immigrant, to the position of foreign minister, reveals the Russian influence in the Israeli domestic policy. In June 2012 President Putin visited Tel Aviv in an attempt to reinforce the Russian presence on the emerging gas market that could enhance Russian leverage in bilateral energy dealings.<sup>207</sup>

Russia has also developed close economic and trade relations with the Middle East countries, particularly with Turkey. The number of Turkish companies active in Russia is about 2,000 with a total investment of \$7 billion, while the trade volume between the two countries reached \$26.6 billion in 2010.<sup>208</sup> Both countries also share a common interest in terms of energy; Russia supplied over 45% of Turkish gas

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<sup>205</sup> Putin said that the resolving of the debt was “*the basis for long-term cooperation in the future*” as Putin said, available at “*Russia, Syria sign agreement for major arms deal*”, World Tribune.com, January 26, 2005. For more information see, see Freedman, O., R., : “*Russia, Israel and the Arab – Israeli Conflict: The Putin Years*”, Middle East Policy Council, Vol. 17, Issue 3, pages 51–63, Autumn 2010.

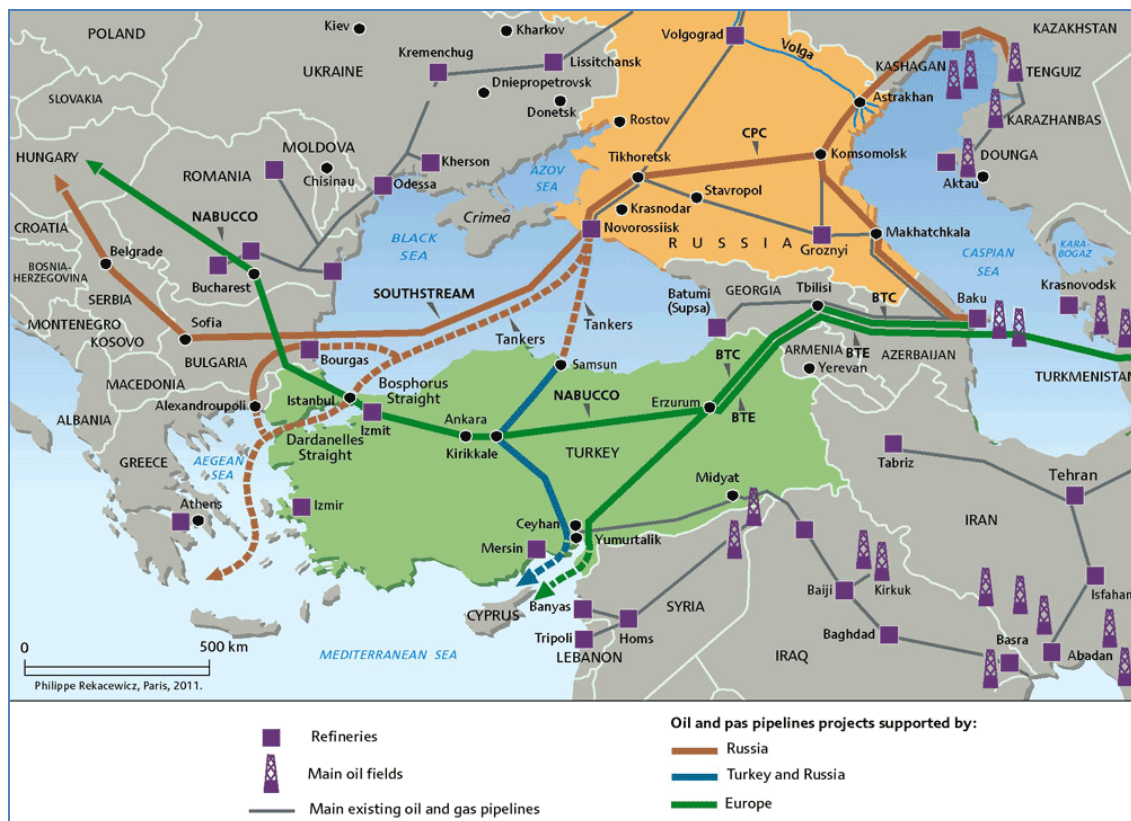
<sup>206</sup> For the political reasons of the deteriorating bilateral relations, see Epstein, D., A., “*Russia and Israel: A Romance Aborted?*”, Russia in Global Affairs, Vol.5, No 4, Oct-Dec 2007, available at: [http://www.openu.ac.il/Personal\\_sites/download/Alek/34%20Russia%20and%20Israel%20%20RFA%20%282007%29.pdf](http://www.openu.ac.il/Personal_sites/download/Alek/34%20Russia%20and%20Israel%20%20RFA%20%282007%29.pdf) (accessed in 25 Nov 2012).

<sup>207</sup> However, President Putin, before leaving Tel Aviv, met with the leader of Palestinian authority Mahmoud Abbas, in Kershenr I. “*Just Passing Through, Putin Consults With Israeli Leaders on Syria and Iran*”, The New York Times, June 25, 2012, available at: <http://www.nytimes.com/2012/06/26/world/middleeast/putin-visits-with-israeli-leaders.html> (accessed in 25 Nov 2012)

<sup>208</sup> “*Turkey, Russia Eye Increased Cooperation in Business, Trade*”, Today's Zaman, March 14, 2011, available at: [http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=238105](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=238105) (accessed in 06 Oct 2012).

energy in 2010<sup>209</sup> and cooperates in energy projects like Samsun-Ceyhan pipeline (see map 13), that would pump Russian oil from Black Sea to Mediterranean. Furthermore in December 2011, Turkey allowed the execution of the construction and operation of South Stream project (see map 13), a gas pipeline which runs from Russia via the Turkish EEZ.<sup>210</sup> However, Turkish aspirations to become energy hub undermine a Russian energy interest, which sees itself as being the main supplier of European gas, and opposed to the Turkish assertiveness in case of Cyprus.

**Map 13: Main Existing and Planned Oil and Gas Pipelines**



**Source:** Kandiyoti R., “Pipeline Chess Across the Black Sea”, *Le Monde Diplomatique*, January 2011, available at: <http://mondediplo.com/blogs/pipeline-chess-across-the-black-sea>.

Cyprus is of great strategic significance for Russian interests, not only for its location but also for its participation to EU. Russia counts on the geostrategic location of the island of Cyprus because of the insecure future of Assad regime in Syria that imperils its major naval base in Tartus. The cooperation with Cyprus, which is

<sup>209</sup> “Country Gas Profiles: Turkey”, Energy Delta Institute, 2011, available at: <http://www.energydelta.org/mainmenu/energy-knowledge/country-gas-profiles/country-gas-profile-turkey> (accessed in 06 Oct 2012).

<sup>210</sup> “Turkey Grants Permit for South Stream Construction”, Gazprom Release, December 28, 2011, available at : <http://www.gazprom.com/press/news/2011/december/article126759/> (accessed in 06 Oct 2012).

member of EU, makes easier for Russia to promote gas volumes for transportation and reselling via Gazprom in European market. In the second phase of licensing for hydrocarbon exploitation in the EEZ of Cyprus, two Russian companies express their willingness to participate.<sup>211</sup>

The cooperation between Moscow and Nicosia extends to economical, commercial and military level. The Russian loan to the Cyprus government in 2011, amounted €2.5 billion, helped Cyprus to sustain against a crisis if Greece defaults.<sup>212</sup> In addition, a large number of Russian entrepreneurs use Cyprus as a base for their business and investment activities.<sup>213</sup> Moreover, the longstanding military cooperation between the two countries is confirmed not only by the possession of Russian high technology military systems, but also by the Russian support to Cyprus to develop the gas fields in its EEZ, that led Nicosia label Moscow “a shield against any threats by Turkey”.<sup>214</sup>

## 5.2. United States Presence in the Middle East

US had traditionally strategic interests in the Middle East. After the WW II, US supported economically and politically countries like Greece, Turkey, Israel and Egypt to expel communist expansion. At the end of Cold War, US increased its influence in the area, because of its increasing dependence on imported energy and the geopolitical competition with Russia, over the control of foreign energy resources.

The US-Israel alliance is stable since the creation of Jewish state. The support that US provide to Israel is reinforced by the presence of a very powerful Jewish lobby. Thus, they maintain common policy on the final outcome in Syria, regarding the post-

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<sup>211</sup> These companies are Novatec Overseas Exploration and Production in consortium with the French Total and GRB Global Resources BV, which is linked to Gazprom Bank, in “*Two Russian Companies Expressed Interest in Cyprus Hydrocarbons*”, Famagusta Gazette, July 26, 2012, available at : <http://famagusta-gazette.com/two-russian-companies-express-interest-in-cyprus-hydrocarbons-p16192-69.htm> (accessed in 06 Oct 2012).

<sup>212</sup> Hadjipapas A. and Hope K., “*Cyprus Nears €2.5bn Russian Loan Deal*”, Financial Times, Sep 14, 2011, available at: <http://www.ft.com/intl/cms/s/0/655a3fd2-de31-11e0-9fb7-00144feabdc0.html#axzz2D49mHKuK> (accessed in 24 Nov 2012).

<sup>213</sup> According to the Russian Statistical Office (Rosstat), 39% of all Russian investments into Europe were concentrated in Cyprus in 2007. Exports grew moderately from €7 million in 2000 to €17 million in 2006, “*The Bilateral Relations of EU Member States with Russia*”, European Affairs, December 2008, available at: [http://www.heraldofeurope.co.uk/Issues/5/European%20Affairs/THE\\_BILATERAL\\_Relations/THE\\_BILATERAL\\_Relations.pdf](http://www.heraldofeurope.co.uk/Issues/5/European%20Affairs/THE_BILATERAL_Relations/THE_BILATERAL_Relations.pdf), (accessed in 25 Nov 2012).

<sup>214</sup> Ögütçü M., “*Rivalry in the Eastern Mediterranean: The Turkish Dimension*”, Policy Brief, GMF, June 2012, available at: [http://www.gmfus.org/wp-content/blogs.dir/1/files\\_mf/1339171647Ogutcu\\_EasternMedRivalry\\_Jun12.pdf](http://www.gmfus.org/wp-content/blogs.dir/1/files_mf/1339171647Ogutcu_EasternMedRivalry_Jun12.pdf) (accessed in 25 Nov 2012).



Assad era and nuclear proliferation of Iran. Americans always thought Hamas as a terrorist organization and deny officially discussing with them. The deeply routed relations between the two countries confirmed by the newly elected president Barack Obama, when he fully supported the Israel's right to defend itself,<sup>215</sup> although Netanyahu supported the Republican candidate Mitt Romney<sup>216</sup>.

US has cultivated close relations with Turkey, especially when in 1952 became a NATO member, as a mound against communism. In January 2012, a NATO missile defense radar deployed in Malatya, manned by both Turkish and US personnel.<sup>217</sup> In addition, US uses Turkey as a leverage of pressure to Russian monopoly distribution network of natural gas, supporting Nabucco pipeline (*see map 13*), which would bypass the Russian distribution network. After recent findings of massive reserves offshore Cyprus, US State Department clearly defended Cyprus' sovereign rights to explore for energy in its maritime zone. Having a US company (Noble Energy) involved in developing the energy resources of Cyprus, Washington desires the de-escalating of regional tensions in order to benefit from the construction of the distribution network offshore Cyprus.<sup>218</sup>

Moreover, Cyprus, after its independence in 1960, became a base for US to promote its strategic interests. In 1974, US had been involved in the Cyprus's partition, supporting Turkish invasion. Since then, Washington welcomed United Nations (UN) role as a mediator for a long term resolution to age old Cyprus problem (Anan Plan). US State Department backs up a some sort of “revenue-sharing” model in case of the hydrocarbon exploitation issue, which could benefit both communities in the context of an overall settlement.<sup>219</sup>

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<sup>215</sup> “Obama: Israel Has ‘Right to Defend Itself’”, CBS News, Nov 18, 2012, available at: [http://www.cbsnews.com/8301-250\\_162-57551535/obama-israel-has-right-to-defend-itself/](http://www.cbsnews.com/8301-250_162-57551535/obama-israel-has-right-to-defend-itself/) (accessed in 27 Nov 2012).

<sup>216</sup> Sherwood H., “Binyamin Netanyahu Gambles on Mitt Romney Victory”, The Gurdian, 20 Sep 2012, available at: <http://www.guardian.co.uk/world/2012/sep/20/binyamin-netanyahu-gambles-on-mitt-romney> (accessed in 27 Nov 2012).

<sup>217</sup> “NATO Anti-Missile Radar in Turkey Put Into Operation”, RIA Novosti, January 17, 2012, available at: [http://en.rian.ru/military\\_news/20120117/170796159.html](http://en.rian.ru/military_news/20120117/170796159.html) (accessed in Nov 27 2012).

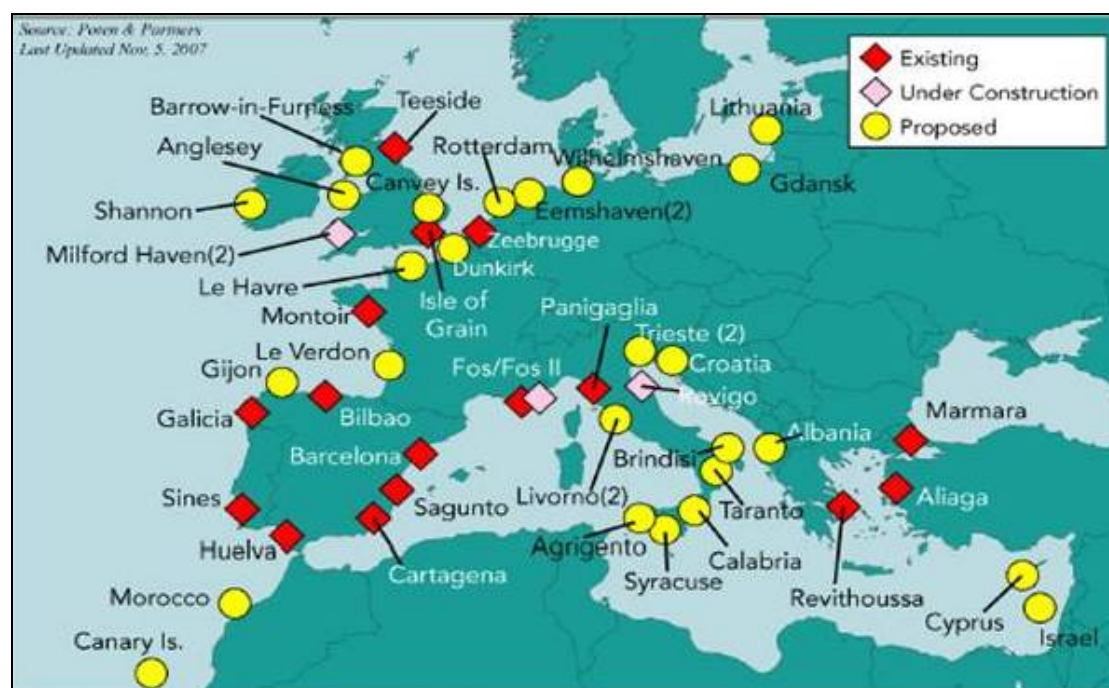
<sup>218</sup> According to Mark C. Toner, deputy spokesperson of State Department, “The United States continues to support strongly the Cypriot-led negotiation process, conducted under UN good offices, to reunify the island into a bi-zonal, bi-communal federation”, Daily Press Briefing, Washington, DC, September 29, 2011, available at: <http://www.state.gov/r/pa/prs/dpb/2011/09/174815.htm#CYPRUS> (accessed in 27 Nov 2012).

<sup>219</sup> “US Supports Revenue-Sharing Agreement in Cyprus for Natural Gas”, Today's Zaman, 29 Sep 2011, available at: [http://www.todayszaman.com/newsDetail\\_getNewsById.action?newsId=258364](http://www.todayszaman.com/newsDetail_getNewsById.action?newsId=258364) (accessed in 27 Nov 2012).

### 5.3. European Energy Security Concerns

European countries never worried much about their dependence on Russian gas, until January 2006, when political disputes between Russia and Ukraine temporarily cut off gas supply.<sup>220</sup> The diversification of suppliers became a priority of European energy policy makers, although in 2010, European reliance on Russian gas amounted to 31.8%.<sup>221</sup> In order to reduce the over-reliance on Russian monopoly, European countries support new pipeline projects (e.g. Nabucco) and construct LNG terminals to ensure energy security (*see map 14*). Europeans are interested in recent gas discoveries as a potential southern corridor that could help significantly the diversification of gas supplies. However, EU lacks of a common energy policy in Eastern Mediterranean. European countries particularly England, France and Germany have developed bilateral alliances with Middle East countries based on their national interests.

**Map 14:** Europe Map of Energy Terminals



**Source:** Natural Gas Vehicle Association (NGVA), available at: <http://www.ngva.cz/ngva-europe/25-lng-blue-corridors-the-right-solution-for-a-more-economical-long-distance-road-transport.html>.

<sup>220</sup> Stern, J., “Natural Gas Security Problems in Europe: the Russian–Ukrainian Crisis of 2006”, Asia-Pacific Review, Routledge, London, Vol. 13, No. 1, 2006, pp. 39-56.

<sup>221</sup> “... Russia’s share of EU-27 imports of natural gas declined from 45.1 % to 31.8 % between 2003 and 2010, while Qatar’s share rose from less than 1 % to 8.6 %.”, in Eurostat, “Energy Production and Imports”, European Commission, August 2012, available at: [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Energy\\_production\\_and\\_imports#Imports](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Energy_production_and_imports#Imports) (accessed in 28 Nov 2012).

England has traditionally close relations with Cyprus. Following Cyprus gaining independence in 1960, UK retained two Sovereign Base Areas in Akrotiri and Dhekelia. The United Kingdom retains a military presence on the island in order to keep a strategic location at the eastern end of the Mediterranean, for use as a staging point for forces sent to locations in the Middle East and Asia. In addition, three British gas companies were bidders at the second round of licensing in May 2012,<sup>222</sup> while the UK giant petroleum company, BP, is actively involved in Nile Delta Basin.<sup>223</sup> The British Minister for Europe David Lidington has said that “*the discovery of oil and gas resources in Cyprus` EEZ has the potential to bring greater prosperity and energy security to the region*”, indicating the British positive attitude towards the future gas exploitation projects.

France, as a former colonial power, enjoys friendly relations with Lebanon, thus follows closely the regional developments. It has played an active role in the stabilization of Lebanese government after the war with Israel in 2006, contributing with a force of 1,600 personnel to United Nations Interim Force in Lebanon (UNIFIL).<sup>224</sup> In addition, French government promotes its energy interests through military cooperation with Cyprus. In January 2012, Cyprus and France have signed an agreement between their armed forces,<sup>225</sup> while few months later they joint aeronautical search, rescue and unconventional threats exercise, at the sea area south of Limassol.<sup>226</sup>

Germany, since the end of Cold War, had no active interference in Eastern Mediterranean. The decrease of Russian influence in the region, led Berlin to undertake a more active role. First, Germany preserves close economic and trade

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<sup>222</sup> The three UK companies are Premier Oil, Vitol and Capricorn Oil, in Hydrocarbon Exploration & Production in the Eastern Mediterranean, “*Bidders in Cyprus 2<sup>nd</sup> Round*”, Near East Energy Associates (NEEA), available at: <http://neea.net/blog/files/f856d395d08a7c13346a546dd3853801-2.html> (accessed in 29 Nov 2012).

<sup>223</sup> For more information about BP activities in Nile Delta Basin, see <http://www.bp.com/sectiongenericarticle.do?categoryId=457&contentId=2000608> (accessed in Nov 29, 2012).

<sup>224</sup> “*France stresses its support for Lebanon government*”, Yalibnan, December 31, 2006, available at: [http://yalibnan.com/site/archives/2006/12/france\\_stresses\\_1.php](http://yalibnan.com/site/archives/2006/12/france_stresses_1.php) (accessed in 29 Nov 2012).

<sup>225</sup> “*Cooperation between Cypriot and French Armed Forces*”, February 4, 2012 available at: <http://www.defencegreece.com/index.php/2012/02/cooperation-between-cypriot-and-french-armed-forces/> (accessed in 29 Nov 2012).

<sup>226</sup> “*France and Cyprus Wrap up Joint Exercise*” Famagusta Gazette, August 01, 2012 available at: <http://famagusta-gazette.com/france-and-cyprus-wrap-up-joint-exercise-p16268-69.htm> (accessed in 29 Nov 2012).

relations with Turkey<sup>227</sup>, while there is a great Turkish minority that affects German domestic policy. In addition, Germany has developed a political cooperation with Israel, especially after the election of chancellor Merkel, in 2005: she accused (Lebanon's) Hezbollah and (Gaza's) Hamas respectively for responsibility of the wars of 2006-2008 and supported Israeli action after the storming of the Turkish Mavi Marmara ship by Israeli commandos in May 2010. Furthermore, Germany supported Cypriot sovereign rights for exploration in its EEZ. The Merkel's visit in January 2011 - the first ever by a German head of government - can be considered as an effort to increase its influence in Eastern Mediterranean. Besides, Germany has also military presence in Eastern Mediterranean, cooperating with Cypriot army and executing joint military exercises in Cypriot EEZ.<sup>228</sup>

#### 5.4. China: A Global Resource Competitor

The economic rise of China has made substantial changes to the world energy balance, which has led to a geographical shift of consumption on natural gas. While China's market share of the global energy consumption was only 8% in 1990, is expected to dominate in 2035 at 24%, compare to US's expected 16% share.<sup>229</sup> Although coal will make up an estimated 62 % of China's net energy supply in 2035, only slightly less than at present, China desires to diversify its energy supplies and to reduce its oil dependence from OPEC countries. In its struggle over energy, especially the control over the flow of gas from the Caspian region, has developed an intensive diplomatic activity.<sup>230</sup> In addition, China cooperates with Russia under the Shanghai Cooperation Organization (SCO), providing arms and technical assistance to the

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<sup>227</sup> Turkish exportation to Germany, in 2008, was \$ (10% of all its exports), while Turkish imports from Germany were \$18.7bn, in Wilson, J., "Turkey and Germany: a close relationship", Financial Times, December 01, 2010, available at: <http://www.ft.com/intl/cms/s/0/5727eec8-fbd8-11df-b7e9-00144feab49a.html#axzz2DbCa5HZa> (accessed in 29 Nov 2012).

<sup>228</sup> Three German ships were involved in the exercises, along with search and rescuers from Cyprus in Fenwick, S., "Cyprus-Germany Sea Exercises 'Perfectly Coordinated'", April 11, 2012 available at : <http://www.cypusnewsreport.com/index.php?q=node/5595> (accessed in 29 Nov 2012).

<sup>229</sup> Cvijic G., "The Changing Geopolitics of Energy", Journal of the Geographical Institute, Vol. 62, No 1, 2012, pp. 126-127, available at: <http://www.doiserbia.nb.rs/img/doi/0350-7599/2012/0350-75991201125M.pdf> (accessed in 12 Dec 2012).

<sup>230</sup> For more information, see "China's Pipeline Gas Imports: Current Situation and Outlook to 2025" in PetroMin Pipeliner, January - March 2011, available at: <http://www.pm-pipeliner.safan.com/mag/ppl0311/r06.pdf> (accessed in 13 Dec 2012).

Central Asian countries.<sup>231</sup> China’s energy-driven initiatives appear to move the energy security up its political agenda.

The demand of the going out strategy has led China toward deeper engagement with the energy producing states of the Middle East.<sup>232</sup> Beijing showed interest in the exploitation of the recent gas findings offshore Cyprus, when China's state-owned oil and gas company Chinese National Offshore Oil Corporation (CNOOC) expressed strong desire to be involved directly and substantially in the development and commercialization of natural gas offshore Cyprus in eastern Mediterranean.<sup>233</sup> In addition, China has developed close trade and economic relations with Israel; the trade levels reached US \$6.7 and it has become Israel's third largest export market (in 2010).<sup>234</sup> It is likely that China will bolster its ties with energy producer countries in the region – as its reliance on overseas suppliers grows - producing further strains in the political environment of Eastern Mediterranean.

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<sup>231</sup> Klare, M., “*The New Geopolitics of Energy*”, The Nation, May 01, 2008, available at: <http://www.thenation.com/article/new-geopolitics-energy> (accessed in 12 Dec 2012).

<sup>232</sup> The Middle East now provides about 60 percent of China’s oil, in Leverett F. & Bader, J., “*Managing China-US Competition in the Middle East*”, The Washington Quarterly, Winter 2005-2006, available at: [http://www.brookings.edu/~media/research/files/articles/2005/1/winter%20energy%20leverett/20051216\\_leverett\\_bader.pdf](http://www.brookings.edu/~media/research/files/articles/2005/1/winter%20energy%20leverett/20051216_leverett_bader.pdf) (accessed in 01 Dec 2012).

<sup>233</sup> Hall, S., “*CNOOC Interested in Cyprus Offshore GTas: Report*”, The Wall Street Journal, March 04, 2012 available at: <http://www.marketwatch.com/story/cnooc-interested-in-cyprus-offshore-gas-report-2012-03-04> (accessed in 01 Dec, 2012).

<sup>234</sup> “*China-Israel Bilateral Trade*”, Embassy of Israel, Beijing, available at: [http://www.israeltrade.org.cn/english/doing\\_business\\_with\\_china/bilateral\\_trade/000052/](http://www.israeltrade.org.cn/english/doing_business_with_china/bilateral_trade/000052/) (accessed in 01 Dec 2012).

## 6. Conclusion

The importance of energy as a new geostrategic dimension adds more perspectives at the complex relations among Eastern Mediterranean countries. The world's growing demand for energy plays even more significant role in shaping the relations between supplying and consuming countries. Energy exporting states change the regional balance for their benefit and improve their position in international system. Qatar, for example, holds 12% of total gas reserves, it is the first LNG exporter and its influence in international system is disproportionate to its size.

The rapid increase in the availability of natural gas through technology and innovations has made gas energy a significant and reliable component of the low-carbon energy future. Natural gas, as an emerging energy source, allows a cheaper and cleaner transition to more cost effective renewable sources post 2030.<sup>235</sup> Its significant increasing consumption has led to the expansion of physical ties between states through energy infrastructure. However, we anticipate that the use of LNG will reduce gas supply vulnerability in short-term situations.

Gas discoveries offshore Israel and Cyprus have already become an incentive for alliances and, at the same time, created regional tensions with Turkey and Arab countries. Tensions have always negative commercial implications. Major international energy companies are reluctant to invest in unstable and disputed areas. Despite that, their participation in the Cypriot second licensing round for offshore hydrocarbon reserves indicates Western interest in Eastern Mediterranean.

Europe is probably most interested in recent gas discoveries in the region. The current production levels is a drop of the ocean to EU's gas consumption (18,4 tcf/522 bcm),<sup>236</sup> but additional discoveries could provide a 'southern corridor' for European energy demand and reduce its dependency from Russian gas supply. Besides, European Commission first published its energy policy package few months after the Russian-Ukraine dispute (December 2006) and put the diversification of sources at the top of the priority list.<sup>237</sup> LNG consumption could be an alternative to permanent pipelines and could allow Europe to import its natural gas from wider range of sources.

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<sup>235</sup> Brinded, M. (2011).

<sup>236</sup> Crisis Group Europe Report No 216, p. 9.

<sup>237</sup> "An Energy Policy for Europe", European Commission, January 10, 2007, p.10, available at: [http://ec.europa.eu/energy/energy\\_policy/doc/01\\_energy\\_policy\\_for\\_europe\\_en.pdf](http://ec.europa.eu/energy/energy_policy/doc/01_energy_policy_for_europe_en.pdf) (accessed in 04 Dec 2012).

Eastern Mediterranean is becoming a field of geopolitical antagonism of US, Russia and China. Military exercises in the region indicate that global actors would not stay aloof from further gas developments. It is not the first time that great powers intervene in energy issues; US expressed their geopolitical interest in Caspian region, when Turkey and Russia opposed to the extension of NATO's Operation Active Endeavor from the Mediterranean to Black Sea.<sup>238</sup> Similarly, Clinton's administration supported Baku-Tbilisi-Ceyhan (BTC) project as a key component of the American policy to develop a new East-West energy corridor that would bypass Russia.<sup>239</sup> In addition, China has shown an assertive policy in the energy-rich South China Sea, with six states claiming part of the region.<sup>240</sup> Its interference in Eastern Mediterranean is closely related to Israeli-Iran deteriorating relations, as Iran is the main energy exporter of Chinese gas energy. Beijing is interested to work more closely with Washington and its allies, all of which would like to see stable energy markets, to prevent such price increases in energy.<sup>241</sup> Global actors will play more or less a catalyst role of the further gas developments in Eastern Mediterranean.

The fundamental question that this thesis should answer is whether gas findings exploitation could further destabilize the region or contribute to the improvement of the relations. In case of Israel, we should consider that its relations with Arab countries will be increasingly deteriorating, in proportion with the discovered gas volumes, without excluding terrorist attacks. Maritime disputes with Lebanon have already led Hezbollah to warn Israel that will protect its sovereign rights.<sup>242</sup> Furthermore, the unstable political situation in Egypt could lead in an escalation of the relations between the two countries, in order President Morsi to gain domestic political support during the transition period.

Another variable that Israel should take into consideration in gas exploitation plan, is Palestinian's Authority (PA) energy needs. Palestine's de facto recognition as a

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<sup>238</sup> Winrow, G., *“Geopolitics and Energy Security in the Wider Black Sea Region”*, Southern European and Black Sea Studies, Routledge, London, Vol.7, No 2, June 2007, p.224.

<sup>239</sup> Ibid, p 230.

<sup>240</sup> Buszynski L. and Sazlan I., *“Maritime Claims and Energy Cooperation in the South China Sea”*, Contemporary Southeastern Asia, Vol.29, No 1, 2007, available at : [http://tailieu.tapchithoidai.org/Maritime\\_South\\_China\\_Sea\\_CSEA.pdf](http://tailieu.tapchithoidai.org/Maritime_South_China_Sea_CSEA.pdf) (accessed in 05 Dec 2012).

<sup>241</sup> Christensen., T., *“The Advantages of an Assertive China”*, Foreign Affairs, March-April 2011, p.9, available at : <http://www.afoutreach.af.mil/shared/media/document/AFD-110414-066.pdf> (accessed in 06 Dec 2012).

<sup>242</sup> *“Hezbollah: Lebanon Will Not Let Israel Seize Its Natural Gas”*, Haaretz, July 14, 2011, available at: <http://www.haaretz.com/news/diplomacy-defense/hezbollah-lebanon-will-not-let-israel-seize-its-natural-gas-1.373201> (accessed in 06 Dec 2012).

sovereign state from UN has strengthened its position in the region.<sup>243</sup> Gaza gas fields, that contains approximately 1,2 tcf/35 bcm, could be integrated into Israel's offshore installations. The aim would be double: On one hand, it could reduce the burden of Israel, by helping PA to overcome its severe economic problems and by creating jobs for the residents of West Bank and Gaza Strip.<sup>244</sup> On the other, it could provide a reason for coexistence among the peoples of the region that will ensure Israel's security.

Turkey's achievement of its energy vision is central to its foreign policy. Ankara has capitalized on Europe's significant energy demand and aspires to position itself as prominent interlocutor in the regional system. Based on its realistic foreign policy, Turkey has made huge investments in infrastructure to become an energy hub. As a result, we consider that Ankara aims at a stable environment to promote its energy interests. In addition, Turkey shares common interests with US in Syria and is the major transit state of Russian gas from East to West. Due to the fact that these two great powers have supported sovereign rights of Cyprus in Eastern Mediterranean, an escalation in Turkey's relations with Cyprus or Greece, as a major ally of Cyprus, is rather difficult.

Cyprus, which faces severe economic difficulties (applied for a rescue program from EU and IMF with onerous commitments),<sup>245</sup> has to be realistic about how natural gas reserves can benefit the island and improve its position in the region. President Christofias has declared that the revenues will be shared with Turkish Cypriots, as a step forward to a permanent and viable solution to the "Cypriot Problem".<sup>246</sup> However, this could bring Turkey's involvement with natural gas reserves exploitation through the back door, something that the recommendations of Zemach's Committee seem to block.<sup>247</sup>

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<sup>243</sup> Charbonneau L., "Palestinians Win Implicit UN Recognition of Sovereign State", Reuters, November 29, 2012, available at: <http://www.reuters.com/article/2012/11/29/us-palestinians-statehood-idUSBR E8AR0EG20121129> (accessed in 06 Dec 2012).

<sup>244</sup> Shaffer, B., (2011) p. 5383.

<sup>245</sup> Smith, H., "Once-Vibrant Cyprus Strikes EU-IMF Bailout Deal", The Guardian, November 23, 2012, available at : <http://www.guardian.co.uk/world/2012/nov/23/cyprus-asks-for-bailout> (accessed in 06 Dec 2012).

<sup>246</sup> "Speech of the President of the Republic of Cyprus Mr Demetris Christofias at the 66th Session of the United Nations General Assembly in New York", Presidency of the Republic of Cyprus, September 22, 2011, available at : <http://www.presidency.gov.cy/Presidency/Presidency.nsf/All/33BF6BDC085EF373C2257917001B9962?OpenDocument> (accessed in 06 Dec 2012).

<sup>247</sup> Henderson, S., "Israel's Natural Gas Challenges", The Washington Institute, September 07, 2012, available at : <http://www.washingtoninstitute.org/policy-analysis/view/israels-natural-gas-challenges> (accessed in 06 Sep 2012).



In terms of the exploitation of gas discoveries, there is a neoliberal aspect which argues that energy cooperation could lead to the improving relations between Turkey and Cyprus. US expressed interest in supporting an export route through Turkey as a profitable “confidence building” measure.<sup>248</sup> The example of Iran-Pakistan-India pipeline that never materialized because India alleged security reasons,<sup>249</sup> or the case of Georgia and Azerbaijan, that would promote the improvement of bilateral relations never happened. The liberal aspect which claims that appropriate economic policies could play a dominate role in cooperation between states, proved to have failed.

Undoubtedly, in case of unilateral exploitation of Cyprus’ gas reserves, the revenues will benefit the Republic of Cyprus and improve the Cypriots citizens’ standard of living. But, at the same time, the economic gap between Cypriots and Turkish Cypriots will become bigger and the possibility of a re-unified island state will diminish. In countries where hydrocarbon has been discovered, like Russia, economic nationalism has emerged as a powerful theory which can lead to fragmentation and eventual political and, hence, economic instability within a state.<sup>250</sup> Cypriot government should consider gas findings as a great opportunity to implement energy policies, to the benefit of both communities through mutual compromises.

To sum up, it appears that natural gas will create distance among those that will exploit gas reserves and those who will stay depended on imports. However, we should consider that alliances will be created, which will ensure the distribution network. In addition, a further militarization of the region will be a reality. Global actors will play a significant role in regional relationships and dynamics will greatly determine how revenues of gas findings will be distributed. Energy security matters in Eastern Mediterranean are inextricably interlinked and appear to remain so for at least the unforeseeable future.

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<sup>248</sup> Crisis Group Europe Report No 216, op.cit. p.8.

<sup>249</sup> Cohen A., Curtis L., and Graham O., *“The Proposed Iran–Pakistan–India Gas Pipeline: An Unacceptable Risk to Regional Security”*, Executive Summary Backgrounder, The Heritage Foundation, May 30, 2008, p.14, available at: <http://mail.gees.org/documentos/Documen-03020.pdf> (accessed in 06 Dec 2012).

<sup>250</sup> Szakonyi D., *“The Rise of Economic Nationalism Under Globalization and the Case of Post – Communist Russia”*, Vestnik, The Journal of Russian and Asian Studies, Iss. 6, Vol. 1, Summer 2007, pp. 30-44, available at: <http://www.sras.org/vestnik> (accessed 14 Dec 2012).



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