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Turkey's Potential Role in the Emerging South-Eastern Mediterranean Energy Corridor

by Elif Burcu Günaydın

ABSTRACT

South-Eastern Mediterranean gas findings have raised much interest in recent years. Even though the estimated quantity of reserves is not globally significant, it is enough to be a regional game changer, promising a considerable amount of gas surplus to be exported. The main export route and potential customers are still being debated. Turkey, with its growing gas consumption, geographical location and existing pipeline system, is considered to be the most feasible option both as a customer and a transport route. Nevertheless, the fact that Israel and Cyprus, with whom Turkey had difficult relations, are the first two explorers of significant resources complicates considerably the situation. Optimistically, the reserves may lead to a solution to the Cyprus conflict and restore diplomatic ties between Israel and Turkey. However, energy resources are known to be a double-edged sword that can lead to collaboration but also to conflict. Either way, gas production will find its way to the markets. It will be up to regional actors to decide whether this way will be paved via interim agreements or via a permanent settlement that could initiate regional energy cooperation in the Eastern Mediterranean.

Turkey | Israel | Cyprus | Energy | Natural gas | Pipelines | European Union

keywords

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by Elif Burcu Günaydın*

Introduction

The South-Eastern Mediterranean (SEM), which has always been one of the main routes for commerce, is recently a point of interest with regard to a particular prospect. Israeli gas findings in the last decade were followed by a United States Geological Survey (USGS) report which declared that the Levant Basin province of the Mediterranean was holding 3.4 trillion cubic meters (tcm) of natural gas.[1] The explorations accelerated as the latest findings in 2010 and 2011 in the region consistent with the report created high hopes for the future.

Turkey, one of the littoral countries and the largest economy of the region, aspires to extend its role as a bridge from East to West to the energy field. Geographically located between the majority of the world resources in the Caspian and Middle Eastern regions and the energy-hungry West, Turkey is already acting in compliance with this role via its straits, pipelines and the Ceyhan port. After the Soviet disintegration, Turkey established close diplomatic relations with the energy-producing countries in the Caspian region. Increasingly active in the energy picture of the region, both as a potential importer and as an export route for resources, Turkey is now watching the developments close to its southern coast with interest. However, this time Turkey has notable diplomatic problems instead of cultural ties with the two countries exploring for resources: Israel, a former ally, and the Republic of Cyprus (RoC),[2] a long-time rival.

[1] Christopher J. Schenck et al., "Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province, Eastern Mediterranean", in *USGS Fact Sheet*, No. 2010-3014 (March 2010), http://pubs.usgs.gov/fs/2010/3014.

[2] In this article the term "Republic of Cyprus" refers to the southern part of the island that is administered by the "Greek Cypriot Administration".

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The scene evolving in the SEM represents a Greece-Israel-RoC cooperation that is getting stronger every year, crowned by mutual aerial and naval exercises.[3] So far this has created the impression that Turkey is being excluded from the SEM energy game. Nonetheless, energy investments require a pragmatic point of view rather than an ideological approach. As things are getting serious in the waters of the Mediterranean, isolating Turkey from the energy corridor seems like a hard call to make given that it is positioned right in the middle of the picture and is holding the key to the most effective route in the economic respect. Also, using the energy resources as a catalyst to mend the broken Israeli-Turkish relations and as an accelerator to finalize the Cyprus negotiations makes more sense than aggravating the situation by removing Turkey from this picture.

This paper examines the latest developments in SEM offshore explorations, focusing on Turkey's position and its political challenge of achieving an active role in this energy rush, and aims to put forward the opportunities for a collaborative approach. The first section introduces an overview of the region with regard to the progress in gas exploration and examines the export options discussed. The Turkish natural gas outlook and the probability of Turkey becoming an importer and providing an export route are evaluated in the second section, setting aside the political challenges. The third section discusses the realization of this possibility, considering the present disputes, and the opportunities that can be achieved via cooperation.

1. Overview of the South-Eastern Mediterranean resources

1.1. Estimated reserves of the South-Eastern Mediterranean

In the global context SEM energy resources are not significant in comparison to the vast reserves of Iran, Russia, Qatar or Turkmenistan,[4] even if the highest expectation in the USGS report is reached. Nevertheless, from a regional perspective the estimated reserves are more than enough to provide a breakthrough for the energy-dependent countries of the region.

All countries of the SEM are expected to hold vast amounts of natural gas in their continental shelves or declared Exclusive Economic Zones (EEZ). Nevertheless, given the fact that the political turmoil in the region does not skip a beat, spreading all over the region since the "Arab Spring", no other country besides RoC and Israel has been able to start the exploration process as needed.

[3] Ebru Oğurlu, "Turkey Amidst the Shifting Geopolitics in the Eastern Mediterranean", in *Rethink Paper*, No. 9, (May 2013), p. 9-10, http://wp.me/p3TIQJ-O.

[4] Amounts of proven reserves: Iran, 33.6 trillion cubic meters (tcm); Russia, 32.9 tcm; Qatar, 25.1 tcm; Turkmenistan, 17.5 tcm. See BP, *Statistical Review of World Energy 2013*, June 2013, http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy-2013.html.

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Egypt, which has proven reserves of 2.200 billion cubic meters (bcm) of natural gas both onshore and offshore,[5] was a gas exporter with high hopes for reaching to Turkey and beyond via the Arab Gas Pipeline (AGP). However, after the political disputes in the country, domestic production has stagnated and pipeline export routes have been sabotaged for many times, causing interruptions. Egypt stopped selling gas to Israel in 2012 and has lately decreased the use of AGP because of the turmoil and the difficulty of meeting its domestic demand. Sitting on vast resources, and with diminished production as well as export liabilities, Egypt is now in search of gas to import.[6]

Syria, one of the largest economies in the region, has proven reserves of 240 bcm onshore,[7] which is not a substantial amount but is enough to meet its domestic consumption for years. Declaring its EEZ in 2003 and launching an international tender in 2007, Syria was determined to operate offshore exploration. But because of the civil war, which is deteriorating despite the international interference via peace conferences and spreading to neighboring countries, Syria did not have a chance to explore its waters. Nevertheless Russia must have decided to change this pace, as it acquired a license for offshore exploration in December 2013.[8]

Lebanon, as one of the coastal states in the Mediterranean, has no proven reserves onshore or offshore, but the estimates are close to 2.000 bcm according to its official statements.[9] However, Lebanon is exposed to terror spilling over from the civil war in Syria, and three al-Qaeda-affiliated groups have declared war, shaking the country with explosions ever since. Being in a state of war with Israel and maritime disputes corresponding to the exploration areas make the situation more complicated. The stalemate in forming the new government caused the international gas tender to be stalled twice. After 10 months of deadlock, the new government was formed in February 2014, giving hope for stabilization and the realization of the tender, which was last postponed to April 2014. Nevertheless the turmoil in the region still indicates that Lebanon will need time to become a healthy environment for an operational gas sector.

Palestine has estimated gas reserves of about 28 bcm offshore Gaza – small but enough to provide a breakthrough for the economically devastated country. British Gas (BG), the explorer of these reserves, attempted to export to Egypt and Israel, but was not successful due to Israeli objections. Unable to monetize the resources,

[5] Ibidem.

[6] Daria Solovieva, "Why is Egypt importing gas?", in *Egypt Oil and Gas Newspaper*, February 2013, p. 14, http://www.egyptoil-gas.com/read_article_issues.php?AID=623.

[7] BP, *Statistical Review of World Energy 2013*, cit.

[8] Ziad Haidar, "Syria signs offshore oil and gas exploration deal with Russia", in *Al-Monitor*, 27 December 2013, http://almon.co/1xmg.

[9] Karen Ayat, "Lebanon: Interview with Lebanese caretaker Minister of Energy & Water Gebran Bassil", in *Natural Gas Europe*, 9 December 2013, http://www.naturalgaseurope.com/lebanon-minister-energy-water-gebran-bassil.

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BG closed its office in Tel Aviv.[10] Additionally, the two territories of Palestine, the West Bank and the Gaza Strip, have been politically divided since 2007, and the Gaza Strip, while de-facto governed by Hamas, is under Israeli blockade. Thus the offshore reserves of Gaza are out of reach for the time being.

This survey of the region leaves the most stabilized countries of the Levant Basin, Israel and RoC, as the first explorers able to carry out the exploration process and the appraisal drillings.

Israel is the explorer of the largest amounts in the Eastern Mediterranean for the time being. Its reserves are estimated to be in the range of 784 bcm to 1.400 bcm, which amounts to nearly half of the Levantine Basin. Israel has been making offshore explorations since 1998 and hit gas in the Noa Field in 1999 and the Mari-B Field in 2000, which supplied 40 percent of Israeli gas demand until recently. Tamar Field, which holds 272 bcm, is the largest finding of 2009, and is currently supplying domestic demand after production was started in April 2013. In 2010 the Leviathan Field was discovered as the largest offshore discovery in the Mediterranean, which is estimated to hold a 548 bcm of natural gas. Leviathan Field is targeted to start production in 2017.[11]

The RoC, the second explorer of the area, declared its EEZ in 2004 and made its maritime border agreements with Egypt in 2003, Lebanon in 2007 and Israel in 2010.[12] After amending its Hydrocarbon Law in 2007, the RoC launched its first international tender. The tender resulted in Noble Energy (Noble) acquiring the right to exploration of Block 12, the closest block to the Israeli exploration area that turned out to be Leviathan Field in 2011. In the same year, Noble announced that it had hit gas in the field estimated at a gross range of 142 to 227 bcm.[13] The RoC, inspired by the exploration of the Aphrodite Field, opened another international tender in 2012. It resulted in the licensing of ENI S.p.A. (ENI) and Korea Gas Corporation (KOGAS) for the Blocks 2, 3 and 9 and Total E&P Activities Petrolieres (Total) for 10 and 11. ENI and KOGAS are expected to start exploration in the second half of 2014 or early 2015, while Total is planning to start drilling in mid-2015.[14]

[10] Simone Tagliapietra, "Towards a New Eastern Mediterranean Energy Corridor? Natural Gas Developments Between Market Opportunities and Geopolitical Risks", in *FEEM Note di Lavoro*, No. 12/2013 (December 2013), p. 14, http://www.feem.it/getpage.aspx?id=5321.

[11] Keith Elliot, *East Mediterranean*, Presentation at the Noble Energy Analyst Day, Houston, 17 December 2013, p. 10, http://investors.nobleenergyinc.com/events.cfm.

[12] Atilla Sandikli, Türkan Budak, Bekir Ünal, "Doğu Akdeniz'de Enerji Keşifleri ve Türkiye" (Energy Discoveries in Eastern Mediterranean and Turkey), in *Bilge Adamlar Kurulu Raporu*, No. 59 (December 2013), p. 19, http://www.bilgesam.org/tr/index.php?option=com_content&id=2502.

[13] However, in October 2013 Noble decreased its estimations to a gross range of 100 bcm to 140 bcm. Noble Energy, *Noble Energy Announces Appraisal Drilling and Flow Test Results Offshore Republic of Cyprus*, October 2013, http://investors.nobleenergyinc.com/releasedetail.cfm?ReleaseID=794694.

[14] "Building Blocks", in *European Oil and Gas*, No. 102 (14 October 2013), p. 49-51, http://www.europeanoilandgas.co.uk/article-page.php?contentid=18548&issueid=519.

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1.2. Monetization options for the reserves

These findings give the first explorers of the region the chance to become completely independent in terms of energy for the first time, meaning an economic breakthrough via decreasing domestic energy costs. Additionally, the gap between energy consumption and the amount of the explored reserves promises a bright future to the countries as exporters in a strategic position. Energy investments need vast financial sources and time to become operational. Thus it is obvious that the first route to become operational may be the main export route of future SEM gas. Therefore, the decision made by the first exporters will highly contribute to shaping the SEM energy corridor. Aware of this fact, all parties are focused on finding the best route for themselves and urging the investments in this direction.

Noble, which has substantial shares in exploration blocks, presents several developments both for Cyprus and Israel. As the owner of the larger reserves, Israel is offered more export options, including regional low-cost pipelines, an onshore liquefied natural gas (LNG) terminal, and a floating LNG terminal (FLNG) for Israeli gas. The RoC, on the other hand, is seen as more suited for LNG trade via its own LNG terminal or the underutilized Egyptian LNG terminals.[15]

As the owners of the fields, the states also have their own points of view on the issues with regard to their political positions.

Israel is cautious about the use of reserves after being exposed to the energy cuts from Egypt recently and went through a detailed process to decide the amount of gas to be exported. An inter-ministerial committee[16] was appointed on the issue and decided upon an admittedly conservative amount of 500 bcm of gas to be exported.[17] Facing public opposition, the government even lowered this amount, and the decision was finalized by its endorsement through the Judicial Committee. Eventually Israel decided to keep 540 bcm of the reserves for domestic demand.[18] Following this final decision, Israel has started to search for export options and monetizing reserves, which is the main basis for the companies to continue their research and operations.

Even though the recommendations of the Inter-Ministerial Committee were not implemented in terms of the amount to be exported, they proved to be effective on

[15] Keith Elliot, East Mediterranean, cit., p. 14.

[16] The Committee consisted of Israeli bureaucrats, who each had the expertise to investigate different aspects of the issue. The Committee chair was Shaul Tzemach, Director General of the Ministry of Energy and Water Resources, for whom the Report is named.

[17] Israel, *The Recommendations of the Inter-Ministerial Committee to Examine the Government's Policy Regarding Natural Gas in Israel: Executive Summary*, September 2012, p. 10, http://energy.gov.il/English/Subjects/Natural%20Gas/Pages/GxmsMniNGPolicyIsrael.aspx.

[18] Yifa Yaakov, "High Court gives green light to gas export", in *The Times of Israel*, 21 October 2013, http://toi.sr/1a2FKou.

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export routes. As was recommended in the Tzemach Report,[19] the first customer of the Leviathan Field turned out to be one of Israel's neighbors. In January 2014, the Palestine Power Generation Company made an agreement with the Leviathan partners to purchase 4.75 bcm of gas, worth $1.2 billion in 20 years.[20] Following this agreement Jordan became the first export route for the gas from Tamar Field. A subsidiary of Noble Energy has inked an agreement with two Jordanian companies with facilities near the Dead Sea, in February 2014. The agreement foresees 1.8 bcm of gas in total, to be supplied from Tamar Field.[21] Egypt is also considered as a customer. As it was previously an exporter, it has already laid out pipelines to Israel that will only need technical revision to operate backwards.

In February 2014 the Leviathan partners signed a Memorandum of Understanding (MoU) with the Woodside Energy Mediterranean Pty. Ltd. (Woodside). The binding agreement is expected to be made on 27 March 2014 in the framework of this MoU, which will give 25 percent of the rights in Leviathan Field to the company.[22] Woodside is a subsidiary of Australian Woodside Petroleum Ltd., which is known for its field experience in LNG and FLNG terminals. This development is thus consistent with the Tzemach Report, which recommends having an experienced major international player in the field in order to develop the natural gas industry effectively.[23] The MoU also names Woodside as the operator of the LNG or FLNG Project while mentioning the possibility of a "Non-LNG Export Project", which confirms that Israel did not make its final decision for the main export route.

The RoC is also heavily dependent on energy imports but does not yet have natural gas in its energy mix. The country was affected heavily by the Eurozone crisis starting in 2011, which the Russian Federation (RF) attempted to cool off via a loan of €2.5 billion. The Russian loan was not able to avert the crisis, and a bailout program amounting to €10 billion in total was received from the European Stabilization Mechanism (ESM).[24] Monetization of the gas finding is therefore vital for the RoC and is expected to boost its economy.

The RoC government, which set the onshore LNG project in Vasilikos as a political priority, is making feasibility studies via companies and has signed two MOUs with

[19] Israel, *The Recommendations of the Inter-Ministerial Committee* ..., cit., p. 17.

[20] Sharon Udasin, "Leviathan partners sign first gas export agreement with Palestinian power firm", in *The Jerusalem Post*, 6 January 2014, http://www.jpost.com/Article.aspx?id=337174.

[21] Delek Group, *First Agreement to Export Natural Gas from Tamar Project to Consumers in Jordan*, 19 February 2014, http://ir.delek-group.com/phoenix.zhtml?c=160695&p=irol-newsArticle&ID=1901252.

[22] Delek Group, *Memorandum of Understanding for the joining of Woodside Petroleum to Leviathan Project* ..., 7 February 2014, http://ir.delek-group.com/phoenix.zhtml?c=160695&p=irol-newsArticle&ID=1897959.

[23] Israel, *The Recommendations of the Inter-Ministerial Committee* ..., cit.

[24] European Stability Mechanism, *ESM financial assistance for Cyprus*, 2014, http://www.esm.europa.eu/assistance/cyprus/index.htm.

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the explorers of Block 12 and Total Energy in 2013.[25] According to the first study completed, a liquefaction plant at Vasilikos would have an initial export capacity of 5 million tonnes of LNG (6.8 bcm) a year with one liquefaction train, expandable to 15 million tonnes of LNG (20 bcm) a year with three liquefaction trains.[26] Additionally, the RoC has commissioned the Massachusetts Institute of Technology Energy Initiative (MITEI) to carry out research on "Natural Gas Monetization Pathways for Cyprus" in 2012. The final report is planned to be completed in August 2014; the interim report that was published in August 2013 focused on project development analysis and gave supporting remarks for LNG priority, despite its economic downsides.[27]

In December 2013, Noble decreased its estimations to 112 bcm gross of natural gas potential in Aphrodite Field[28] and reported that even with undiscovered fields in Block 12 the amount may not reach the initial announcement of 168 bcm.[29] This news strengthened the questions concerning the justification for an onshore LNG terminal, which were present even before the estimations were reduced. According to Noble, the Cyprus onshore facility would certainly need additional resources, which presents other export options like a Floating LNG facility or Egypt's under-utilized LNG facilities.[30] The Cypriot LNG exports address East Asian Markets, namely Japan, which offers a higher price compared to the EU and claims to be competitive with other suppliers of the country.[31]

The LNG Terminal needing additional resources, the RoC government has called on Israel to use the Cypriot LNG Terminal for exports. This does not seem to be well-received, as the Tzemach Report has explicitly declared that Israel should locate its export facility within its sovereign or economic domain; according to Noble, however, it is on the table.[32] The involvement of Lebanese gas is a remote possibility considering the aforementioned situation. The new drilling process in Cyprus is expected to start not before late 2014, so the additional resources which might tip the scale for the export route are not likely to be announced soon.

[25] Elias Hazou, "Cyprus and Total sign gas MoU (Updated)", in *Cyprus Mail*, 8 November 2013, http://cyprus-mail.com/?p=12677.

[26] 21B St Consulting, *Total and Noble Energy to join CNHC in Cyprus LNG Project*, 27 June 2013, http://www.2b1stconsulting.com/?p=19824.

[27] MITEI and The Cyprus Institute, *Interim Report for the Study Natural Gas Monetization Pathways for Cyprus: Economics of Project Development Options*, August 2013, p. 37-38, http://mitei.mit.edu/node/2498.

[28] Noble Energy, *Noble Energy Announces Highlights of 2013 Analyst Conference*, 17 December 2013, http://investors.nobleenergyinc.com/releasedetail.cfm?ReleaseID=814296.

[29] Elias Hazou, "Noble Exploring Floating Energy Option", in *Cyprus Mail*, 3 January 2014, http://cyprus-mail.com/?p=16119.

[30] Keith Elliot, *East Mediterranean*, cit., p. 14.

[31] Simon Henderson, "Natural Gas Export Options for Israel and Cyprus", in *Mediterranean Paper Series*, September 2013, p. 5, http://www.gmfus.org/archives/natural-gas-export-options-for-israel-and-cyprus.

[32] Ibidem.

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2. Turkey: a market and a route

Turkey is the largest economy of the region, with a fast-growing demand for natural gas. Since its first agreement with the RF in 1986, its consumption dramatically increased from 4 bcm/year to 46 bcm/year in 2013.[33] After the amendment of the Natural Gas Market Law (NGML) in 2001, which was a step in harmonizing its energy legislation with European countries, Turkey invested highly in natural gas, involving the private sector in the gasification of the country.

The RF has been Turkey's main supplier of natural gas from the beginning. Even with the diversification in the following years due to imports from Iran, Azerbaijan, Algeria and Nigeria, more than half of its natural gas was imported from Russia in 2012. As the domestic production constitutes less than 2 percent of its consumption and the proven reserves are just above 6 bcm, it is obvious that Turkey almost completely depends on imports. Turkey mostly supplies its domestic needs via long-term agreements. But consistent with the global energy trade trends, Turkey made amendments to its NGML smoothing the way for LNG trade in 2008. The amendments included removing the conditions for imports via Spot LNG for both state and private companies and thus the share of spot LNG increased to 5 percent in 2012.[34]

However, Spot LNG imports do not abate Turkey's diversification need considering its heavy dependency on gas, insufficiency of storage facilities and failure of the market price due to subsidization. Electricity generation is dependent on natural gas, with 44 percent in 2012.[35] In 2012 and in 2013 the decrease of natural gas flow to domestic markets resulted in power cuts in several cities, especially affecting the industrial zones. This interruption was reported to be caused either by technical problems or the weather conditions; nevertheless it serves as a reminder of the consequences of a possible suspension of the flow resulting from a political controversy.

In addition to the political downsides, having the RF and Iran as main suppliers also inflates the gas bill of Turkey. In its gas mix Turkey is being supplied with the most expensive gas from these two resources.[36] Thus, while making diplomatic or

[33] BP, *Statistical Review of World Energy 2013*, cit.

[34] Energy Market Regulatory Authority (EMRA), *Doğal Gaz Piyasası Sektör Raporu 2012* (Natural Gas Market Report 2012), 2013, p. 63, http://www.epdk.org.tr/index.php/dogalgaz-piyasasi/yayinlar-raporlar.

[35] World Bank, *Data Bank*, 2013, http://databank.worldbank.org/data/views/reports/tableview.aspx.

[36] Even though the import prices are supposed to be confidential, they are frequently reported by newspapers. In December 2013, it was reported that Turkey paid $490/1000 bcm for Iranian gas, $425/1000 bcm for Russian gas and $335/1000 bcm for Azeri gas. Ismail Altunsoy, "Faturaları Pahalı Iran Gazı şişiriyor" (Expensive Iranian Gas Inflates the Bills), in *Zaman*, 23 January 2014, http://www.zaman.com.tr/ekonomi_faturalari-pahali-iran-gazi-sisiriyor_2195072.html. For further information on the formation of gas prices see Okan Yardımcı, *Petrol Fiyatlarının Doğal Gaz*

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judicial attempts to lower the gas prices, Turkey is certainly in search of cheaper resources.[37]

Iraq, namely the Kurdistan Regional Government (KRG), is supposedly one of the answers to Turkey's search for cheaper gas. Framework agreements were signed in November 2013; the price is reported to be around $250/1000 bcm. Iraqi gas is expected to start flowing in 2017, at 4 bcm/y in the initial phase and 20 bcm/y in the plateau period.[38] But this agreement is contested by the central government, making the KRG a politically challenged resource.[39]

The Trans Anatolian Pipeline (TANAP) project is expected to supply 6 bcm/y of Azeri gas beginning in 2018. The project will contribute to Turkey's diversification policy as well as strengthen its transport route position, with the pipelines expected to be built from Azerbaijan to Turkey and then extending to Greece and opening to European markets via the second phase, the Trans Adriatic Pipeline (TAP). The project is expected to supply European countries 10 bcm/y. According to the agreement between Azerbaijan and Turkey, Turkey also has priority above other countries in buying the additional production.

Turkey is geographically located between the overwhelming majority of the world natural gas reserves in the Caspian and Middle Eastern regions and an energy-dependent environment in the West that makes it inevitable for Turkey to cast itself the role of transport route or even energy hub. Therefore the developments regarding Azeri and Iraqi gas should be considered as an extension of this policy as well as diversification.

In light of this summary, Turkey's expectation to be a part of a probable South-Eastern Mediterranean Energy Corridor is predictable and complimentary to its energy policy. Turkey, seeking to enhance its gas supplies, at the same time claims to be the most feasible route for the export of SEM gas.

In December 2013 Noble Energy declared that it was considering Turkey as one of the cost-effective pipeline routes for SEM gas from the Israeli Leviathan Field.[40] Turkey is also reported to be the most economical transport option for Cypriot gas in the MITEI Report on monetization of Cypriot gas, which estimates less than half

Fiyatları Üzerindeki Etkisi ve Türkiye İçin Öneriler (The Effects of Oil Prices on Natural Gas Prices and Suggestions for Turkey), Dissertation Expertise, Ankara, EMRA, March 2010.

[37] "Iran will not lower gas prices for Turkey", in *Anadolu Agency*, 24 February 2014, http://u.aa.com.tr/292601.

[38] Merve Erdil, "Gaz Fiyatı 250 Dolara iner mi?" (Will the gas price decrease to $250?), in *Hürriyet*, 30 December 2013, http://www.hurriyet.com.tr/ekonomi/25467114.asp.

[39] Simone Tagliapietra, "Turkey As a Regional Natural Gas Hub: Myth or Reality? An Analysis of the Regional Gas Market Outlook, beyond the Mainstream Rhetoric", in *FEEM Note di Lavoro*, No. 2/2014 (December 2013), p. 14, http://www.feem.it/getpage.aspx?id=6055. For a detailed assessment of KRG as a resource for Turkey, see: Olgu Okumuş, "Erbil Sends Oil, Ankara Gets Trouble", in *IAI Working Papers*, No. 14|02 (February 2014), http://www.iai.it/pdf/DocIAI/iaiwp1402.pdf.

[40] Keith Elliot, *East Mediterranean*, cit., p. 11.

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a break-even price for the Turkish pipeline option in comparison with the pipelines to Greece or the LNG facility onshore Cyprus. The report immediately adds that this kind of a comparison is misleading considering the risk factor which would sweep the economic appeal of the project,[41] and will be considered in the next chapter.

Despite the risk factor mentioned, Turkey is a strong possibility for the export of SEM gas and had been discussed even before the détente in Turkish-Israeli relations. Turkish companies are known to be offering pipeline projects to Leviathan partners. One of these companies, Zorlu Energy (Zorlu), has a 25 percent share in Israeli Dorad Energy and is building Israel's largest independent gas-fired power plant in Ashkelon, expected to come online by 2014. In November 2013, Zorlu made the offer of buying 3 bcm/y of gas under a 15-year contract.[42] Meanwhile, Turcas Energy (Turcas) also came up with an offer to build the pipeline system from Ashkelon to Mersin, a 470 km project that would cost $2.5 billion and carry up to 16 bcm/y of gas. Matthew Bryza, a former US diplomat and presently a member of the Turcas Energy Board, has stated that Turcas would construct the pipeline despite the political tension between Turkey and Israel, claiming that all the companies interested are ready to take the political risk,[43] and the new developments seem to confirm this claim. The partners of Leviathan, Delek and Noble, are reported to have given offers to energy companies in Turkey to make feasibility studies and are expected to produce results in the first quarter of 2014.[44]

As far as the EU is considered to be a customer, Turkey will be the most probable export route. TANAP and TAP are the first steps of an "EU Energy Security and Solidarity Action Plan" calling for a Southern Gas Corridor (SGC). The plan, submitted in 2008, puts forth the need for agreement with transit countries and, notably, Turkey due to its respect for the basic principles of the EU acquis and its own concern for its energy needs.[45] This project was drawn up after supply crises between the RF and Ukraine in order to supply Europe with Caspian and Middle Eastern gas while bypassing the RF.[46]

The EU is presently importing 67 percent of its natural gas, 80 percent of which

[41] MITEI and The Cyprus Institute, *Interim Report for the Study Natural Gas Monetization Pathways for Cyprus*, cit., p. 37, 69, 70.

[42] Amiram Barkat, "Turkey's Zorlu Seeks Leviathan Gas", in *Globes*, 3 November 2013, http://www.globes.co.il/en/article-1000890597.

[43] Joshua Levitt, "Turcas Petrol Proposes 470 km $2.5 Billion Pipeline to Connect Israeli Leviathan Gas to Turkey", in *The Algemeiner*, 13 September 2013, http://www.algemeiner.com/?p=135713.

[44] Ufuk Şanlı, "İsrail gazı 2017'de Türkiye'ye geliyor" (Israeli Gas Coming to Turkey in 2017), in *Vatan*, 18 February 2014, http://haber.gazetevatan.com/israil-gazi-2017de-turkiyeye-geliyor/610737/2/ekonomi.

[45] European Commission, *Second Strategic Energy Review: an EU energy security and solidarity action plan* (COM(2008) 781 final), 13 November 2008, p. 5, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=celex:52008dc0781:en:not.

[46] For further information on TAP and TANAP as the first steps of SGC, see Fatih Özgür Yeni, "Thinking Beyond TAP: Turkey's Role in the Southern Energy Corridor", in *IAI Working Papers*, No. 13|32 (November 2013), http://www.iai.it/pdf/DocIAI/iaiwp1332.pdf.

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is sourced from three countries: the RF, Norway and Algeria. Even though EU gas demand is expected to grow slowly, domestic gas production is expected to decrease 46 percent, which will lead to a huge increase in import dependency, reaching 84 percent.[47] Norwegian production is expected to fall dramatically after 2020, causing a decrease of about 20 bcm/y of its exports to the EU by 2030.[48] This scenario urges the EU to act for its security of supply immediately. Resources from Cyprus, an EU member, would constitute 1.5 percent of EU demand per year. This percentage increases to 5 percent if the Israeli gas is taken into account. Being a reliable source even with this low percentage, SEM gas would contribute to SGC and thus security of supply. Also, as the explorations continue, additional reserves are yet to be announced.[49]

The SGC certainly needs more cooperation on energy issues between the EU and Turkey. However, the RoC declared that it would veto the opening of the energy chapter, making it impossible for the negotiations to start. In 2011, the EU and Turkey launched a "Positive Agenda" to pave the way for progress in the blocked chapters. In this framework, "The Positive Agenda on Enhanced EU-Turkey Energy Cooperation" was announced in 2012. The document declared that Turkey's development as an energy bridge and hub is beneficial for both parties and focused on ensuring an Anatolian route for diversifying EU natural gas supplies via integration of infrastructures and direct contracts.[50]

Turkey already exports Azeri gas to Greece in the scope of the previous Interconnector Turkey-Greece-Italy (ITGI) project beginning in 2007. Bulgaria and Turkey also signed a declaration for building an interconnector between the two countries in order to supply Bulgaria with 3 bcm/y of natural gas. The agreement will be inked in March 2014 and the gas flow is expected to start in two years, as stated by the Bulgarian Minister of Energy in January 2014.[51] With its domestic pipeline system already connected with the EU via Greece, Turkey is now going to have an additional pipeline system via the TANAP project, which is expected to be operating in 2018.

[47] BP, "Regional Insights: European Union", in *Energy Outlook 2035*, January 2014, http://www.bp.com/en/global/corporate/about-bp/energy-economics/energy-outlook.html.

[48] Bengt Söderbergh, Kristofer Jakobsson and Kjell Aleklett, "European Energy Security: The Future of Norwegian Natural Gas Production", in *Energy Policy*, Vol. 37, No. 12 (December 2009), p. 5037-5055.

[49] Ayla Gürel, Fiona Mullen and Harry Tzimitras, "The Cyprus Hydrocarbons Issue: Context, Positions and Future Scenarios", in *PRIO Cyprus Centre Reports*, No. 1/2013, p. 8, http://www.prio.no/Publications/Publication/?x=7365.

[50] European Commission, *Turkey-EU Positive Agenda. Enhanced EU-Turkey Energy Cooperation*, Outcome of the meeting of Commissioners Oettinger and Füle and Ministers Yildiz and Bağis, Stuttgart, 14 June 2012, p. 2, http://ec.europa.eu/energy/international/bilateral_cooperation/doc/turkey/20120622_outline_of_enhanced_cooperation.pdf.

[51] "Bulgaria, Turkey to Sign Gas Grid Interconnection Contract In March", in *Novinite.com*, 14 January 2014, http://www.novinite.com/view_news.php?id=157532.

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3. A mixed blessing: a pipeline to Turkey

3.1. Political challenges

While Turkey represents the technically and economically most feasible route for SEM resources, this potential is heavily challenged by political disputes. Due to its long-standing conflict with the RoC and after breaking diplomatic ties with Israel in 2010, the Turkish route may be the most complicated one politically.

Although Turkey was the first Muslim state to recognize Israel, relations between them were unsteady until positive developments emerged in the Israeli-Palestinian arena in the 1990s. During the 1990s the two countries had an alliance heralded with military cooperation agreements, joint military research, intelligence sharing and multilateral military exercises.[52]

This alliance was affected by the cessation of the Middle East peace process at the beginning of 2000, but cooperation remained on course until 2008. The agreements and military exercises continued during these years. The Med-Stream Project, which never had a chance to be realized, was a product of this era and was supposed to connect the two countries via the construction of a sub-sea multiple pipeline system for transporting oil, natural gas, water, and electricity and the establishment of fiber optic cable lines.[53] However, the cooperative approach ended when the Israeli Cast Lead operation was launched right after Israeli Prime Minister Ehud Olmert's visit to Turkey. Turkish Prime Minister Erdoğan's outburst in the World Economy Forum 2009 was followed by the cancellation of the joint military operation Anatolian Eagle that same year. Diplomatic relations continued to deteriorate, becoming even tenser with the lower chair crisis in 2010 and hitting rock bottom with the Mavi Marmara Flotilla incident. The incident, claimed to be an act of self-defense by the Israeli government but an unjustifiable attack by Turkey, caused diplomatic relations to be downgraded and led to a suspension of the military agreements.

But even when Israeli-Turkish relations ceased diplomatically, they continued to grow in terms of trade.[54] Israeli companies continued to be active in Turkey, while the Turkish companies made vast investments in Israel. Gas resources certainly have the potential to take these economic relations to the energy level. However, energy is a strategic issue and the energy policy is for the governments to decide, even if the financing is supplied by the private enterprises. Thus it is out of question that Israel and Turkey would have to normalize their relations for

[52] Daniela Huber and Nathalie Tocci, "Behind the Scenes of Turkish Israeli Breakthrough", in *IAI Working Papers*, No. 13|15 (April 2013), p. 4, http://www.iai.it/pdf/DocIAI/iaiwp1315.pdf.

[53] Ibidem, p. 5.

[54] Turkish Statistical Institute, *Foreign Trade Statistics*, http://www.turkstat.gov.tr/PreTablo.do?alt_id=1046.

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the pipeline option to be realized. Additionally, it should not be overlooked that in the face of the even more limited chance to agree with other possible countries – notably Lebanon or Syria – on a route, a pipeline from Leviathan to Turkey has to pass through the claimed Cypriot EEZ.[55] Therefore Cyprus must be consulted in the process in accordance with the UN Convention on the Law of the Sea (UNCLOS). This necessity makes the situation more complicated and needs at least moderation in RoC-Turkey relations.

Therefore the second political challenge, which has deeper roots and is harder to overcome also affects export routes directly. Cyprus has always been a point of dispute from the time of the foundation of the Republic of Cyprus in 1960, which stands on the agreements between three guarantor states: the United Kingdom, Greece and Turkey. After Turkey's intervention in 1974 following the Greek coup which aimed at the annexation of the island, the problems remained but changed form. Greek Cypriots continued to administer the Republic of Cyprus and Turkish Cypriots founded the Turkish Republic of Northern Cyprus (TRNC) in 1983, which is recognized only by Turkey. The efforts to solve the problems between the two communities have been on the agenda of the international community since then. In 2004 with the "Annan Plan" the problems came close to a resolution, but it was rejected by Greek Cypriots in a referendum. Negotiations since then have failed to deliver a comprehensive settlement. Particularly since 2011, Eastern Mediterranean gas complicated further the Cyprus conflict.

The RoC, as administered by Greek Cypriots, is not recognized by Turkey in its present form, and every step it has taken on the lineation of the maritime borders has been contested by Turkey via letters submitted to the UN. Turkish objection derives from two reasons. First, Turkey expresses that the limitation of the continental shelf and EEZ should be put into effect by an agreement between the related states based on the equity principle.[56] Second, Turkey declares that there is no single authority competent to represent Cyprus as a whole. Turkey also submitted letters on behalf of the TRNC as the sole state to recognize its presence, enabling them to express their views on the issue.[57]

The disputes reached their peak level when the first drilling started in the claimed EEZ of the RoC. On 15 September 2011, Turkey declared that it would sign a maritime border agreement with the TRNC unless the activities in the waters ceased.[58] After

[55] Matthew J. Bryza, "Eastern Mediterranean Natural Gas: Potential for Historic Breakthroughs Among Israel, Turkey, and Cyprus", in *Turkish Policy Quarterly*, Vol. 12, No. 3 (Fall 2013), p.35-44 at p. 42, http://www.turkishpolicy.com/dosyalar/files/vol_12-no_3-bryza.pdf.

[56] For further information on the issue see Sertaç Hami Başeren, "Doğu Akdeniz Yetki Alanları Uyuşmazlığı" (Disputes over Eastern Mediterranean Maritime Jurisdiction Areas), in *Stratejik Araştırmalar*, Vol. 8, No. 14 (January 2010), p. 129-184, http://vizyon21yy.com/documan/genel_konular/Milli%20Guvenlik/Kibris_Ege/Dogu_Akdeniz_Deniz_Yetki_Alanlari_Uyusmazligi.pdf.

[57] See Turkey's communications in *The Law of the Sea Bulletin*, No. 54 (2004), p. 127 and No. 59 (2005), p. 34, http://www.un.org/depts/los/doalos_publications/los_bult.htm.

[58] Turkish Ministry of Foreign Affairs, *Press Release Regarding the Technical Meeting with the*

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the drilling actually started, Turkey signed a maritime agreement with the TRNC in New York in September 2011. This agreement was stated to have an intention of making the RoC cease its actions until the Cyprus issue has reached a solution.[59] However, the RoC, made it clear that it will not step back. Thus the Turkey-TRNC maritime agreement was followed by the licensing of Turkish Petroleum Company (TPAO) to start explorations in the area. At the end of September 2011, the President of the TRNC submitted to the UN Secretary General a proposal on the exploration and use of the natural resources offshore. The proposal, coinciding with the basic principles of Greek Cypriot administration, was not accepted.[60] After this rejection TPAO has burst on the scene, with Turkish seismic vessel Koca Piri Reis, to be accompanied by the naval forces from a safe distance.

The second tender of Cyprus was on the same blocks contested by Turkey. Thus Turkey declared that it will not allow, under any circumstances, foreign oil companies to conduct unauthorized oil/natural gas exploration and exploitation activities and will take all necessary measures to protect its rights in the maritime areas falling within its continental shelf. Turkey called upon those countries and companies who might be interested in this tender not to take any steps that might affect the settlement of the process, and expressed that the companies who tend to act otherwise will not be allowed to take part in Turkey's future energy projects.[61] Notwithstanding the Turkish position, the tender resulted in the licensing of three companies as aforementioned.

Urged to act quickly in order to use its limited resources for an economic breakthrough, the RoC is not planning to interrupt its gas explorations. However, it can be said that it avoids a direct confrontation by not awarding any licenses in Turkey's continental shelf.[62] Additionally, the RoC declared several times that both communities of the island will benefit from these resources.[63]

representatives from relevant authorities of the Turkish Republic of Northern Cyprus, No. 206, 15 September 2011, http://www.mfa.gov.tr/no_206_-15-september-2011_-press-release-regarding-the-technical-meeting-with-the-representatives-from-relevant-authorities-of-the-turkish-republic-of-northern-cyprus.en.mfa.

[59] Atilla Sandikli, Türkan Budak, Bekir Ünal, "Doğu Akdeniz'de Enerji Keşifleri ve Türkiye" (Energy Discoveries in Eastern Mediterranean and Turkey), cit., p. 29.

[60] "Turkish Cyprus offers proposal to UN chief over Greek gas row", in *World Bulletin*, 25 September 2011, http://www.worldbulletin.net/?aType=haber&ArticleID=79357.

[61] Turkish Ministry of Foreign Affairs, *Press Release Regarding the International Tender For Offshore Hydrocarbon Exploration Opened by the Greek Cypriot Administration*, No. 140, 18 May 2012, http://www.mfa.gov.tr/no_-140_-18-may-2012_-press-release-regarding-the-international-tender-for-off_shore-hydrocarbon-exploration-and-exploitation-opened-by-the-greek-cypriot-administration.en.mfa.

[62] Atilla Sandikli, Türkan Budak, Bekir Ünal, "Doğu Akdeniz'de Enerji Keşifleri ve Türkiye" (Energy Discoveries in Eastern Mediterranean and Turkey), cit., p. 32.

[63] Nonetheless this declaration also makes it clear that only if a federal state comes out from the process will the natural gas belong to all citizens, and closes the door for a possible interim solution. "Natural Gas will not be a part of the solution", in *Famagusta Gazette*, 3 October 2013, http://famagusta-gazette.com/natural-gas-will-not-be-part-of-cyprus-talks-says-president-p20808-69.htm.

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3.2. Chance for a breakthrough

These challenges notwithstanding, the current energy boom also carries hopes for both issues as well as the normalizing of relations between the three coastal states, which may contribute to an appeasement in the region. A breakthrough might be possible, since it promises political gains for all parties involved.

A unified Cyprus would mean an end to the decades-long stalemate, giving the parties another chance to live in peace together, hopefully freed from the burden of the past. For Turkish Cypriots it would mean an end to their long time isolation in the international arena, letting them take part in the administration of the island they are living on. A unified Cyprus would benefit from the opportunities offered by the resources without the political concerns and could thus choose the most profitable route, while Turkey would be released from a stumbling block on its way to EU. Negotiation chapters including energy would be opened directly instead of resorting to interim processes. It would therefore be possible to realize Turkey's development as an energy bridge or an energy hub to the EU and ensure an Anatolian route for diversifying natural gas supplies as decided in 2012.

Indeed the Cyprus negotiations seem to be accelerated by this energy rush. The talks were interrupted during the Cyprus Presidency of the Council of the European Union. This interval was followed by Greek Cypriot elections, and the economic crisis that have caused the process to be stalled since 2012. However, lately the shuttle diplomacy process and the efforts of all actors involved, particularly the US, came to fruition. Even though the disagreements on the Joint Declaration were reported to have blocked the negotiations in late 2013, the talks were unexpectedly re-launched in February 2014.[64] The RoC President Anastasiades' statement that the growing interest in the accords is based on the possibility for energy cooperation, along with his mentioning of the pipeline to Turkey for the first time just a few days after the negotiations were resumed, indicate the main catalyst behind the negotiations.[65]

However even with the latest positive developments there are still thorns in the way. The joint declaration on a bi-zonal, bi-communal federal state is a big leap for the Cyprus issue, but there are still questions on property and power-sharing that wait to be dealt with. Even if the problems are solved on the diplomatic level, there will be another referendum as the final step of the settlement. Additionally, the maritime disputes have to be settled for the sake of the new explorations and drillings, as both sides have issued licenses for the same blocks to different

[64] "Our View: Energy and alliances behind US involvement", in *Cyprus Mail*, 9 February 2014, http://cyprus-mail.com/?p=18387.

[65] Menelaos Hadjicostis, "Cyprus President Trumpets Energy Boost for Turkey", in *The Associated Press*, 17 February 2014, http://bigstory.ap.org/article/cyprus-president-trumpets-energy-boost-turkey.

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companies and Turkey has its own plans for its continental shelf.

The energy rush has also brought movement to the Israeli-Turkish relations. In March 2013, after President Obama's visit to Tel Aviv, Prime Minister Netanyahu called Prime Minister Erdoğan, acknowledged the operational mistakes during the raid, and made it clear that the tragic results were unintentional, expressing regret over injuries and loss of life. Erdoğan accepted the apology, making a reference to the historical ties and cooperation between the Jewish and Turkish peoples. Starting the dialogue between its two allies in the Middle East was important for the United States (US), as Obama stated, and even though the disagreements continued as expected, the dialogue is on course.[66] After the first condition of Turkey with regards to the normalization of the relations was met,[67] diplomats from the two countries started negotiations immediately on the compensation to be paid to the families of the victims. These negotiations on the sum of the compensations have not yet reached their conclusion, but for the time being the agreement seems close. As Turkish Foreign Minister Davutoğlu pointed out the relations are the closest to normal since Mavi Marmara, and the negotiations are to be finalized soon.[68] But the third condition of Turkey makes the agreement harder. While Erdoğan has announced that the agreement will not be completed until the Gaza blockade is removed, Israeli officials have declared that this condition is not even under discussion.[69]

The latest developments in both issues are being explicitly supported by the US as it would also prefer Israel and Turkey to mend their relations and thus to restore Turkey's role in the Middle East. The cooperation of its two allies would enable the US to keep its ground in the region without much effort, whereas leaving the issues unresolved may lead to American-Israeli companies being confronted with a Turkish naval presence. Also, the RF's determination to make its presence felt in the region urges the US to take an active role in the reconciliation processes in order to create an energy corridor in the region. The RF already has strong ties with the RoC and is determined to take part in the offshore explorations via Syria and Lebanon in order to maintain its role as the main supplier to the EU. In February 2013 one subsidiary of Gazprom inked a deal with Levant LNG Marketing Corp. for the exclusive purchase of LNG from Tamar Field.[70]

[66] Jodi Rudoren and Mark Landler, "With Obama as Broker Israelis and Turkey End Dispute", in *The New York Times*, 22 March 2013, http://nyti.ms/WIBO4y.

[67] In the aftermath of the incident Turkey put forward conditions with regards to the normalizing of the relations with Israel: an official apology, compensation to the families of the victims, and the lifting of the Gaza blockade. Turkish Ministry of Foreign Affairs, *Relations between Turkey and Israel*, 2011, http://www.mfa.gov.tr/relations-between-turkey-and-israel%20.en.mfa.

[68] Emre Peker and Joshua Mitnick, "Israel, Turkey Near Repairing Alliance", in *The Wall Street Journal*, 10 February 2014.

[69] Lazar Berman, "Israel won't lift Gaza blockade to appease Turkey", in *The Times of Israel*, 12 February 2014, http://toi.sr/1g7hRxh.

[70] Ebru Oğurlu, "Turkey Amidst the Shifting Geopolitics in the Eastern Mediterranean", cit., p. 11.

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Conclusion

Even though the political disputes need time to be solved, the volatility of the energy markets and the urgency of financing further explorations require that decisions are taken rapidly. As the choice has to be made in the midst of this ambiguity, a solution that does not exclude others may be the best. The cooperation may start with realizing the Israeli-Turkish pipeline, complying with international law and involving the RoC in the process. The Leviathan project is expected to be operating by 2017, one year before the TANAP and TAP pipeline projects. Turkey alone would be an attractive market for SEM gas, and the fact that it will have access to the EU via pipelines makes it more appealing. These markets could also finance further projects in the region. As the negotiations proceed, the way for Cypriot resources will become clear, leading to a low-cost pipeline to Turkey that could also be used to gasify the whole island or to an LNG Terminal in the case of additional findings.

Nevertheless this kind of cooperation needs a long-term partnership and much political effort from all parties, as deciding the route of the energy export means not only an ordinary agreement but a project on the future of the resources.

Energy resources are known to be a double-edged sword that can lead to a long-term cooperation, as was the case for the European Steel and Coal Community, or a new set of disputes and violence. In the South-Eastern Mediterranean, an armed conflict is a far-off possibility for the aforementioned actors, but at the same time the creation of a community would need a political miracle. Nonetheless it is possible for this energy boost to lead to a modest cooperation in the marketing of the resources in the most optimal way for all parties, and it could help to balance the regional politics by normalizing the relations of three coastal states.

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