

# Political Feasibility of Israeli Natural Gas Exports to Turkey

Oded Eran, Dan Vardi, and Itamar Cohen



Memorandum **144**

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THE INSTITUTE FOR NATIONAL SECURITY STUDIES

INCORPORATING THE JAFFEE  
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TEL AVIV UNIVERSITY  
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**ההיתכנות המדינית של ייצוא  
גז טבעי מישראל לטורקיה**

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## Introduction

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In its June 23, 2013 meeting, the government of Israel approved the export of some 40 percent of the country's natural gas reserves and the retention of 540 billion cubic meters (BCM) for local consumption. In October 2013, Israel's High Court of Justice rejected petitions seeking to limit the government's exclusive right to set these goals.

The Tamar natural gas field, operating since 2013, does not have reserves large enough for export. On January 5, 2014, the companies comprising the consortium producing the gas from Tamar signed an agreement with the Palestinian Authority to supply 4.75 BCM over the next 18 years; on February 19, 2014, an agreement was signed to supply 1.8 BCM to two companies operating on the Jordanian side of the Dead Sea; and on September 3, 2014, Noble Energy, the American company that is part of the consortium operating Tamar and owning the Leviathan field agreed to enter negotiations with Jordan's electric company on a sale of 3 BCM annually over 15 years. However, these quantities are relatively small. Furthermore, these decisions did not arouse any opposition because of the agreements' political significance.

Exports to other destinations are feasible only from the much larger Leviathan gas field, which is slated to go into production in 2017 or 2018. Technological, economic and political aspects are already giving rise to questions about prioritizing export targets. The issue is highly complex, and whatever decision is finally made, it will be rife with both risks and opportunities.

On April 10, 2014, at a conference hosted by the Delek Group, a senior partner in the consortium that won the franchise to develop Leviathan, participants were shown a map of the field's export potential. If this map reflects strategic decisions by the consortium, most of the export targets – Egypt, Jordan, the PA and Turkey – are concentrated in the Mediterranean.<sup>1</sup> All of the export targets in the region, as well as more distant export targets

that depend on facilities located in neighboring countries (Turkey as a country that facilitates exports to Western Europe or the liquefaction installations in Egypt), entail political and security risks. At the same time, transporting natural gas also opens up economic opportunities and possibilities for creating a regional infrastructure map. Such a map would antedate a political map but could enhance regional stability as it would promote shared economic interests.

Without expressing an opinion on Delek's list of potential export target and whether it does or does not exhaust the political and economic interests, not only of the consortium but also of the State of Israel, we would like to examine the feasibility of Israeli natural gas export to Turkey. It is a complex, even fascinating topic. The presentation given in the Delek conference did not relate to the possibility of Israel exporting gas to Europe or to Turkey as a conduit for exports elsewhere. It may be logical to think only in terms of local markets, because the amounts available to the companies that will eventually export the gas are not sufficient to play a major role in the larger markets of Europe, South Asia and East Asia. A press release issued by the partners of the Leviathan reserves on July 13, 2014 stated that at present, the total amount contained in the Leviathan field is estimated at more than 600 BCM, with 80 percent of that designated for export (the Leviathan partners are obligated to retain up to 135 BCM over the next 15 years for the Israeli gas delivery system).<sup>2</sup> Because supply contracts in the gas business run over 15-25 years, the average annual quantity available for export would be in the 20-30 BCM range (this quantity could grow if further gas reserves are discovered in the field). The length of supply contracts also makes it difficult to provide meaningful forecasts. On the one hand, it is hard to ignore the tendency to project current economic and political circumstances onto future processes and trends; on the other hand, there are no sophisticated tools for making decisions using financial and political implications with a high degree of certainty.

Strategic exporters to Turkey must take into account the political future of that country and the future of its internal and international politics. That the source of the natural gas in this case is Israel and that the consortium exporting it has a significant Israeli presence require a particularly thorough examination. The analysis below deals mainly with the political feasibility of an agreement with Turkey, based in part on the assumption that in the decision making process, the economic aspect is relatively simple while

the risks are fundamentally political. The anti-Israel statements, bordering on anti-Semitic canards, made by Turkish leaders during the July 2014 conflict between Israel and Hamas in the Gaza Strip only emphasize the risk involved in a strategic economic deal between Israel and Turkey, even if what is discussed is a contract vital to Turkey's own economy. The harsh exchanges and mutual accusations between the leaders of the two countries may complicate the implementation of any agreement on the supply of Israeli natural gas to Turkey.



## Turkey's Place in the Regional Gas Market

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The astonishing growth of Turkey's economy and the fact that gas is not among its main natural resources are the two major reasons for Turkey's increased interest in the new natural gas reserves discovered by nearby countries. Beyond its effort to supply the rising demand for gas in the country, Turkey is interested in strengthening its strategic position in the region, a desire rooted in Turkey's location as the bridge between the natural gas rich neighbors to the East and the enormous European market to the West.

### Turkey as Gas Consumer

Turkey's consumption of gas more than doubled in less than a decade, from 18 BCM in 2002 to some 39.5 BCM in 2011.<sup>3</sup> The rapid growth of the Turkish economy, the massive production of electricity using natural gas, and the ability to elude the stagnation typical of economic activity throughout the European continent in recent years are the main reasons behind the sharp rise in Turkey's demand for gas.<sup>4</sup>

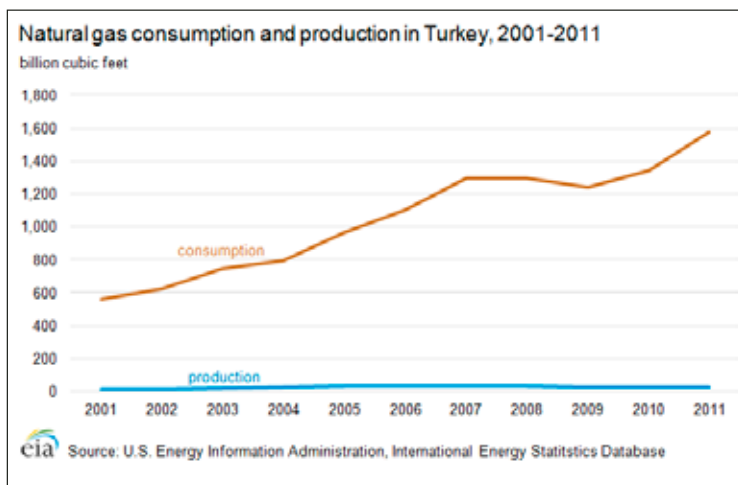


Figure 1. Natural Gas Consumption and Production in Turkey, 2001-2011

The annual Turkish consumption of natural gas currently stands at a little over 45 BCM. Some forecasts anticipate increased demand, reaching an annual consumption of some 60 BCM in 2020 and in 2030 – some 76 BCM.<sup>5</sup>

**Table 1.** Natural Gas Consumption in Turkey

<b>Year</b>	<b>Demand (in BCM)</b>
1987	0.5
1990	3.5
2002	18
2006	31.2
2011	39.5
2014	45.3
2020 (estimated)	60
2030 (estimated)	76

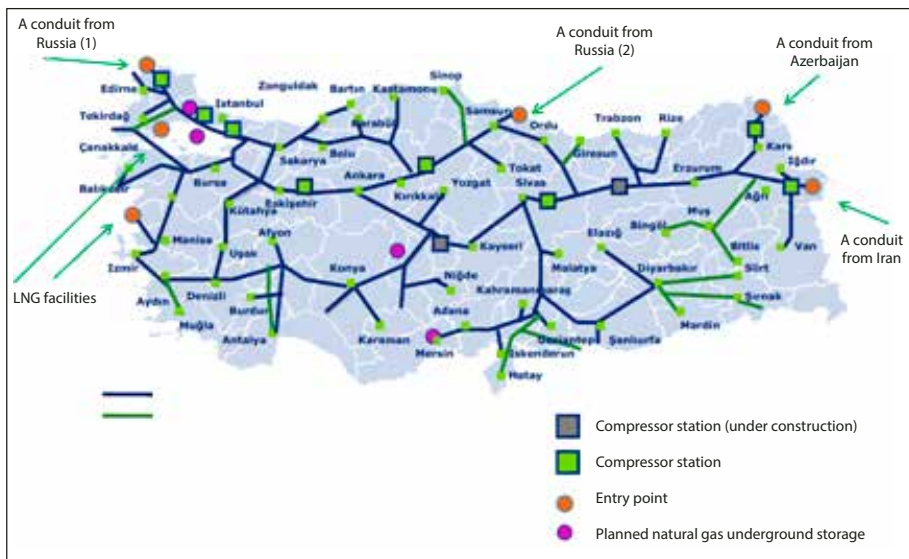
Turkey has very few natural gas resources and is therefore forced to import gas. In recent years, Turkey developed a dependency on Russian gas (Russia supplied Turkey with some 30 BCM a year or 58 percent of its 2013 annual consumption) and European gas (Europe supplied Turkey with some 10 BCM a year or 19 percent of its 2013 annual consumption). Proof of this dependency is evident in the high prices Turkey pays compared to the average price of natural gas on the world market. In October 2013, it was reported that Turkey had paid more than \$500 for 1,000 cubic meters of Iranian gas; only recently did Russia agree to lower the price of gas it sells to Turkey to \$406 per 1,000 cubic meters, after the price for 1,000 cubic meters of Russian gas had for years crossed the \$500 barrier. In 2011, more than 20 percent of Turkey's total trade deficit (approximately \$20 billion) was attributed to high natural gas costs.

**Table 2.** Natural Gas sources Supplying Turkey, as of 2013

<b>Country</b>	<b>Percent</b>
Russia	58
Iran	19
Azerbaijan	13
Algeria (liquid gas)	8
Nigeria (liquid gas)	2

## Current Projects for Importing Natural Gas to Turkey

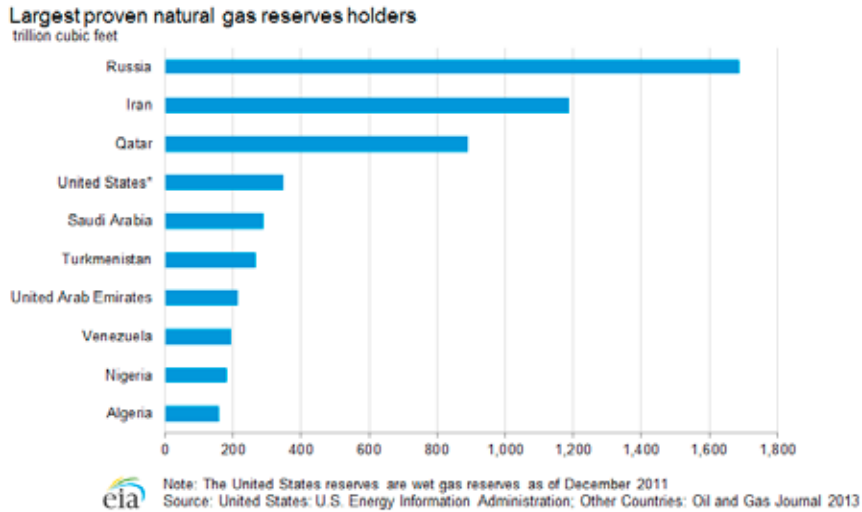
Turkey's major supplier of natural gas is Russia, which exports some 30 BCM to Turkey annually. This collaboration began some 20 years ago, and since then Turkey's dependency on Russian gas has only grown. Up to the beginning of the new millennium, Russia was supplying Turkey with only some 6 BCM through the Western Line going through Ukraine and Bulgaria. In 2003, Russian natural gas started flowing into Turkey through the Blue Stream line as well, a pipeline that goes directly from Russia to Turkey, via the Black Sea, without passing through any other countries.<sup>6</sup> The recent Russia-Ukraine crisis, whose outcome is impossible to forecast, and past political crises between the two (in 2006 and 2009) reduced the flow of gas from Russia to Turkey and cast a deep shadow over the 15 BCM of gas arriving annually in Turkey by means of a pipe passing through Ukraine.



**Figure 2.** Map of Turkish Natural Gas Grid

Iran, sitting on the world's second largest natural gas reserves in the world, is the second largest supplier of gas to Turkey. The interruption of the flow of Iranian gas to Turkey in the winters of 2007 and 2008 because of increased demand in Iran, Iran's inability to provide the full amount it had committed to deliver (10 BCM a year), the lawsuit Turkey submitted against Iran in the International Court in 2010 because of the high cost of gas

set ahead of time in the “take or pay” method (whereby Turkey is obligated to pay for a predetermined amount of gas ahead of time even if it receives less than that amount), are only a few examples of the difficulty with which Turkey has to contend when purchasing gas from Iran.

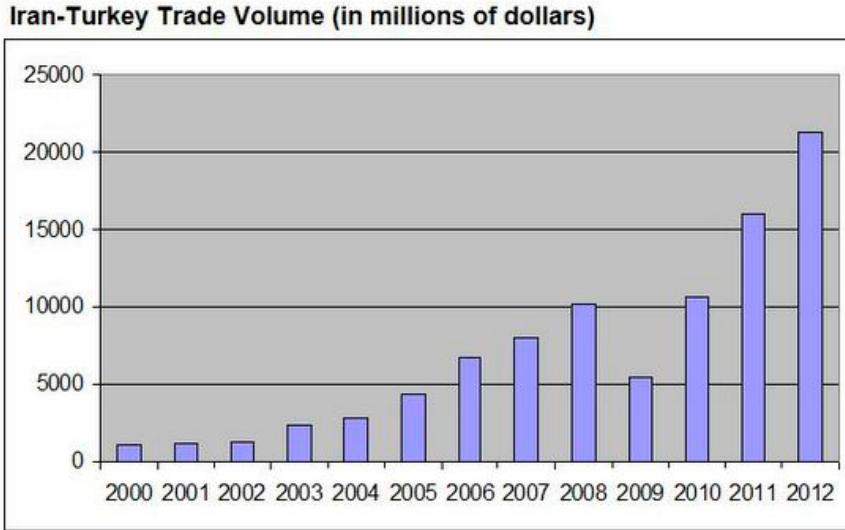


**Figure 3. Largest Proven Natural Gas Reserves Holders**

Despite Iran’s bad reputation, Turkey’s natural gas deficit forces the Ankara government to cooperate with Iran. The relations between the two countries are founded primarily on economic interests, and in the last two decades trade between the two has intensified. Since the beginning of this decade, the trade volume between Turkey and Iran has stood at more than \$20 billion a year, except for 2013 in which trade totaled only \$14.6 billion, mostly as the result of the sanctions imposed by the United States against Iran, leading to a reduction in the scope of Iranian natural gas exports.<sup>7</sup> During Turkish President Abdullah Gül’s visit to Iran in 2011, the two countries announced their intention to reach mutual trade at a total volume of about \$30 billion a year starting in 2015.<sup>8</sup> In the first visit by an Iranian president to Turkey since 1996, in June 2014, similar announcements were made: Turkish Prime Minister Erdoğan proposed that Turkey increase its imports of Iranian gas in exchange for a reduction in price, while Iranian President



Rouhani asked the energy ministers of both countries to continue to try to reach an understanding on the cost per unit of gas.<sup>9</sup>



**Figure 4.** Iran-Turkey trade volume (in millions of dollars)

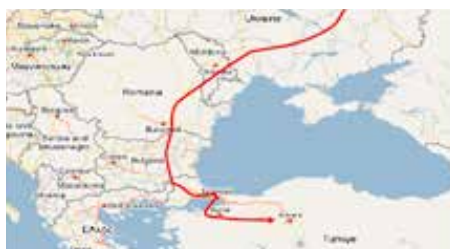
**Source:** Turkish Ministry of Commerce

The third country exporting gas to Turkey via pipelines is Azerbaijan. Relations between Turkey and Azerbaijan are close and free of political concerns. However, the amount of gas received from Azerbaijan is small, totaling only 6 BCM annually since 2007. Despite recent drilling in the Caspian Sea, which revealed new natural gas reserves off the Azeri shore, only relatively small amounts are currently available. These are not expected to fundamentally alter the map of Turkish natural gas suppliers in the next few years.

**Table 3.** Data on Natural Gas Supplies to Turkey from Gas Exporting Countries<sup>10</sup>

Country	Pipeline/ connection	Buyer	Annual quantities (BCM)	Agreement start	Agreement end	Length of agreement
Russia	Blue Stream	BOTAS	15	2003	2028	25
Iran	Tabriz-Ankara	BOTAS	10.5	2002	2025	23
Azerbaijan	South Caucasus	BOTAS	6.5	2007	2022	15
Russia	Western Line	4 private companies	6	2012	2042	30
Russia	Bulgaria	BOTAS	8	2001	2021	20

West Line – Russia 1



Blue Stream – Russia 2



South Caucasus – Azerbaijan



Eastern Anatolia – Iran

**Figure 5.** Pipelines Bringing Natural Gas into Turkey

Source: The Gas Exploration Company

### Planned Turkish Gas Import Projects

In light of the expected increase in demand, Turkey must seek new sources of natural gas. The Ankara government is working on expanding current joint ventures (with Azerbaijan and Iran) and creating new ones (northern Iraq and Israel) in order to meet developing needs.

In February 2014, the Iranian minister in charge of oil, Bijan Namdar Zangane, confirmed that Turkey had asked to double the amount of natural gas purchased from Iran from 10 BCM to 20 BCM annually, in exchange

for lower prices. The Turkish request came on the heels of a state visit by Turkish Prime Minister Erdoğan to Iran earlier in the year, during which he emphasized Turkey's need for Iran's natural resources.<sup>11</sup> It seems that disagreements on the final price of Iranian gas that are sure to emerge, as well as the lack of an appropriate infrastructure to take in double the present amount of gas (the current pipeline from Iran to Turkey can transport only up to 16 BCM a year), will lower the chances of expanding Iranian-Turkish cooperation on the supply of natural gas anytime soon.

At the same time, Turkey is closely following developments in the reserves recently discovered in the Caspian Sea, just off Azerbaijan. In 2011, Turkey expanded its cooperation with Azerbaijan, and the two countries signed an agreement to establish the TANAP project, whereby Azerbaijan will, as of 2018, supply Turkey with some 6 BCM of natural gas a year.<sup>12</sup> After the completion of the TANAP project, the export of Azeri gas to Turkey will double, and Azerbaijan will become Turkey's second largest supplier of natural gas (assuming that the project to double the import of gas from Iran to Turkey is not implemented by then).



**Figure 6.** The Course of the Planned TANAP Project

**Source:** Delek Drilling L.P. and Avner Oil & Gas Exploration L.P.

Iran's growing influence over the Iraqi government's foreign policy, due to the vacuum created by the withdrawal of US troops from the country, has a lot to do with the change in Turkey's policy towards the Kurdish minority in northern Iraq. In the past, Turkey tried to prevent the Kurds from gaining

direct control of the sources of energy, as it feared the establishment of an independent Kurdistan. Nevertheless, recently Turkey and the Kurds in northern Iraq have embarked on some joint economic ventures. In May 2012, the two signed an agreement for laying gas and oil pipelines from northern Iraq to Turkey;<sup>13</sup> in November 2013, the details of a northern Iraqi gas deal were put together but not officially published, though the deal will presumably involve some 10 BCM a year for 15 years beginning in 2017;<sup>14</sup> and in January 2014, Turkish Energy Minister Taner Yıldız announced that crude oil was starting to flow in the pipeline from the Kurdish region in northern Iraq, though the Iraqi government did not respond to this claim.<sup>15</sup>

Turkey's other sources of interest in natural gas are in the Mediterranean, especially the Leviathan reserve discovered in 2010 off the coast of Israel. As noted above, the amount of natural gas Israel can export is currently estimated at no more than 400 BCM. From meetings between the Leviathan partners (Noble Energy, Delek Drilling, Avner Oil and Gas, and Ratio Oil Exploration) and the Turkish fuel company Turcas (which in late April 2014 announced that it entered into negotiations with Energisa, a subsidiary of Sabancı Holding, considered the second largest financial group in Turkey with capital estimated at more than \$13 billion), it is apparent that a 600-km long pipeline could connect the Leviathan field with the Turkish coastal city of Kalkan at an estimated cost of \$2.4-4 billion. It is safe to assume that large Turkish companies, such as Turcas and Sabancı (whose subsidiary is Energisa) will not risk undertaking strategic projects without the approval, even if informal, of Prime Minister Erdoğan.<sup>16</sup> Assuming that Israel decides to transfer the entire exportable amount of gas to Turkey through the proposed pipeline, the total annual supply would stand at 18-20 BCM, depending on the length of the contract (15-25 years).

**Table 4.** Anticipated Annual Natural Gas Supply to Turkey

Nation/region	Pipeline/connection	Estimated reserves (in BCM)	Annual amount (in BCM)	Expected starting year
Azerbaijan	TANAP/TAP	900 (possibility of 1.4 trillion CM)	6 to Turkey, 10 to Europe	2018
Northern Iraq			10 to Turkey <sup>17</sup>	2017
Israel	Leviathan	600 BCM (80% for exports)	20-30 BCM (depending on length of contract)	2018-2019

## **Turkey's Strategic Goal for the Regional Energy Market**

Turkey strives to become a significant player in the regional energy market. In light of the absence of natural gas reserves for export, this desire is based on the fact that it is a geographical bridge connecting the large gas reserves to its east and the enormous European market to its west. A former Turkish Energy Minister noted that “Turkey is interested in joining the EU by means of pipes,” thereby expressing the Ankara government’s strategic ambition.<sup>18</sup>

Turkey’s desire to promote European dependence is not new. In the past, Turkey proposed transporting Qatari gas to Europe, but the program failed after Qatar decided to export its gas via Liquefied Natural Gas (LNG) facilities. In 1999, Turkey pushed for laying a gas pipeline from Turkmenistan to Europe, but the idea was never realized because of disagreements between Turkmenistan and other nations on the Caspian Sea. In 2007, Turkey signed a memorandum of understanding with Iran to lay a line that would transport natural gas from the Persian Gulf to Europe, but the negotiations ran aground because of the US and European economic sanctions on Iran.<sup>19</sup>

Turkey is aware of the energy challenge facing the decision makers in the EU over the next few years. European demand for natural gas is expected to grow by 5 percent per year, at a time when European annual consumption is already some 600 BCM a year. Europe’s dependency on imports is also expected to grow: in 2020 Europe can be expected to import 67 percent of the natural gas it needs and in 2030 some 81 percent. The continent’s current supply sources are not particularly varied: the major gas suppliers are Russia, Norway, and Algeria.

Despite the Russian-Ukrainian crises in 2006 and 2009 and even 2014 resulting in reduced natural gas supply to many European countries, it seems that Russia’s control of the European energy market will continue in the coming years, and recent developments between the two countries are not likely to affect it. In October 2012, the Nord pipeline, supplying Germany with 55 BCM of Russian gas through the Baltic Sea, was inaugurated. The South Stream line, slated to start operating in 2018, is expected to transport some 63 BCM of Russian natural gas to Austria and Italy through the Black Sea, Bulgaria, and Greece.<sup>20</sup> In addition to the 95 BCM flowing into Europe through Ukraine every year, a total amount of some 220 BCM a year of Russian natural gas is expected to flow into Europe starting in 2018.<sup>21</sup>

The TANAP project, increasing the supply of gas from Azerbaijan to Turkey, is also the central part of the emerging alternate route of gas supply

(the so-called southern corridor) bypassing the Russian pipes from the north and connecting to Europe through Italy. According to the agreement between Turkey and Azerbaijan, starting in 2019, 10 BCM of Azeri gas are expected to flow into Europe via the TANAP, which crosses Turkey from east to west. Thus, Turkey will – for the first time in its history – become a transit country for Russian natural gas on its way to Europe.

Russia's energy policy is based on exporting maximal amounts of natural gas and maintaining dominance over the European market by sidelining competitors. Although the TANAP project will introduce Turkey as a transit country, the amounts are very small relative to the continent's annual demand (more than 600 BCM) and to Russia's slice of it (200 BCM). Therefore, relations between Russia and Turkey are not expected to be severely damaged. Russian President Vladimir Putin, referring to the issue, ruled out the possibility that an alternative to the Russian pipeline network would come into existence, saying "There can be no competition, when one project has the gas and the other does not."<sup>22</sup> Nonetheless, the geographical route of the Azeri line through Turkey, running some 2,000 km, could make it a destination for transporting natural gas for other countries in the region in whose territories gas reserves are being discovered, such as Israel, Iraq, Lebanon and Iran, and thereby increase the threat to the northern supply route of natural gas to Europe. In any case, Turkey took pains to lower the level of anger in the Kremlin about the signing of the agreement to lay the line from Azerbaijan, and a few months after the agreement was formulated, it was agreed in Ankara – after several years of dithering and Russian pressure – that the South Stream line would go through Turkey's economic waters.

In addition to the revenue Turkey earns by collecting transit fees for Azeri gas flow to Europe through its territory, this type of project strengthens Turkey's strategic position from the perspective of the EU. Nevertheless, Turkey's desire to become a serious player on the regional energy market seems, at the moment, wishful thinking based on its geographical location rather than a realistic prospect. Its energy dependence on the Russian Bear, intent on preserving its own regional hegemony, is more than enough to restrain Turkish attempts to realize its ambition.



# The Feasibility of Israeli Natural Gas Exports to Turkey

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## **Turkey's Political and Economic Orientation**

The process of secularization in Turkey since the time of Atatürk, the country's president from 1923 until 1938, which was a decisive factor in shaping the country's political system, ended to all intents and purposes with the rise of the Justice and Development Party (Adalet ve Kalkınma Partisi). The party and particularly its leader, Prime Minister Recep Tayyip Erdoğan, have a clear Muslim orientation. In order to secure the party's control of government, it eliminated the status of the Turkish army as the strongest element in the internal political arena. In his domestic struggle against the army, Erdogan cynically exploited the negotiations with the EU toward Turkey's membership in the union, which began in 2004. One of the EU's membership criteria is the supremacy of the civil system over all other systems, including the security establishment. Erdoğan, in a clever campaign that could not engender any European opposition, abolished the special status of the army, which had seen itself as the defender of democracy and which, in the not very distant past, had curbed the rise of movements with ideologies of a radical nature, whether religious or political.

The military's curtailed status in Turkey's domestic politics has implications for the relations between Turkey and Israel as well. Security was the mainstay of the bilateral agreements, and it is hard to imagine that the status of the army or the security relations will be restored in the near future. For Israel, this meant the loss of a vital part of its insurance policy for any type of strategic connection with Turkey. While trade between Turkey and Israel has significantly increased in recent years, despite the political tension between them, it is primarily limited to commodities in which the political risk – and thus also financial risk – is relatively low.

Turkey has expressed its desire to join the EU ever since the EU was founded. Despite formal promises given half a century ago, it was only

in 2004 that EU leaders – under heavy US pressure – decided to begin discussing Turkey’s membership. Despite the decision, there is serious doubt if some of the key EU nations, first and foremost Germany, are prepared to finalize the move. Furthermore, Turkey’s willingness to accept some normative systems, not necessarily congruent with the ideology of the governing party and its leader, is hypothetical and unlikely to stand the test of reality, because it is hard to forecast a positive result to the negotiations over Turkey’s membership in the EU.

If Turkey does not join the EU, this will have negative implications for a strategic economic alliance between Israel and Turkey. Full Turkish membership in the EU would have strengthened the rule of law, transparency, and the maintenance of business standards. The fact that a US company – Noble Energy – is a member of the consortium holding the franchise to the Leviathan field would seem to reduce Turkey’s desire to enter a confrontation over a contractual violation, but recent events relating to American companies operating in Turkey and Turkey’s participation in the anti-ISIS coalition are evidence that the involvement of large Western business elements in Turkey is not a guarantee against problematic steps, such as its March 2014 attempt to stop Twitter from operating on Turkish soil.

Those who view Turkey’s membership in NATO as proof of the country’s essentially Western orientation should take careful note of some events that have occurred in recent years. Turkey’s refusal to allow US forces to operate in Iraq from Turkish sovereign territory, Turkey’s willingness to consider purchasing a Chinese-made anti-aircraft system, Turkey’s double game with Iran, and Turkey’s reluctance to criticize Russia’s invasion of the Crimean Peninsula (though Turkey did censure the referendum held there) reflect the set of considerations guiding the current government, which is not necessarily identical to the positions of the other NATO members.

The key question in this type of analysis is: will the current political trend in Turkey continue through the next two decades, or is there a possibility that the tides will turn and more moderate forces will again return to government? For now, the latter seems less likely. While in the summer of 2013 there were massive demonstrations in the large cities, especially Istanbul, at this point there is no evidence of any ferment of significant scope posing an existential threat to the regime. On the contrary, despite the demonstrations, proof of corruption on the part of the Prime Minister and his family, and indications of severe economic problems in the country, the governing party won a



decisive victory in the local government elections that took place in March 2014. The other political parties failed to offer an attractive alternative and it is doubtful that this will change that any time soon.

### **Landmines in the Turkish-Israeli Political Field**

Even a formal end to the conflict between Turkey and Israel that erupted after the Israeli navy's takeover of the Turkish vessel *Mavi Marmara* in May 2010 will not change the relationship between the two countries in any fundamental way in the short or medium term. Even before the violent altercation, the two states were politically estranged. As long as Israel and the Palestinians conducted a political process and as long as negotiations between Israel and Syria continued, Erdoğan refrained from letting wild accusations fly against Israel. The 2009 national election in Israel that brought Benjamin Netanyahu back to the Prime Minister's office and ended the Turkish mediation in talks with Syria loosened Erdoğan's tongue. One may assume that as long as tension between Israel and the Palestinians continues and no political resolution is found to the conflict, and as long as Israel persists in its policy toward Hamas, the tension between Ankara and Jerusalem will persist, even if a formula for resolving the *Mavi Marmara* matter is found and even if Erdoğan himself leaves Turkey's political arena (while his party remains in power). The Turkish press rushed to note a paragraph in former Secretary of State Hillary Clinton's book *Hard Choices* whereby then-Turkish Foreign Minister Ahmet Davutoğlu threatened that his country would declare war on Israel as a result of the *Mavi Marmara* incident.<sup>23</sup>

The upheavals in the Arab world created potential for friction between Israel and Turkey as well, even though the two seemingly share an interest in keeping the regional instability from crossing their borders. It would seem to be in Israel's best interests to cooperate with the moderates in the Arab world in their struggle against the Shiite awakening, especially given the fact that the Shiite camp is headed by Iran. But as long as no resolution is found for the Israeli-Palestinian conflict, Sunnis will, in all likelihood, prefer to conduct their battle against the Shia without being perceived as collaborating with Israel.

The internal conflict in Syria will almost certainly last many more years without any side being able to declare absolute victory. It would seem to benefit both Israel and Turkey to engage in intelligence and even operational

cooperation in fighting the thousands of extremist terrorists who have infiltrated Syria and who cannot be ousted by any external or domestic element. However, the current government in Ankara has no interest whatsoever in strengthening security ties with Israel, and even separate Israeli and Turkish naval or aerial military activity are likely to require coordination to prevent collisions and other accidents resulting, for example, from erroneous identification.

The Kurdish issue, too, is rife with potential for friction over the next few years. There is no doubt that Israel is interested in seeing the creation of a strong Kurdish entity in the Middle East, as it would join other independent minority entities that do not necessarily espouse the traditional Arab line on Israel. Although in recent years Turkey has modified its position on the Kurdish autonomous region in northern Iraq and even cooperates with it on energy, for example, this does not mean that Turkey takes a kind view of open Israeli activity on behalf of Kurdish autonomy, certainly not in the Kurdish part of Syria. Turkey is likely to increase its own cooperation with the Kurdish part of Iraq – whether the activity is of a political, economic, or security nature. Turkey’s need to diversify its energy sources is one of the key factors in the dramatic change in its policy toward a Kurdish autonomy in Iraq. Turkey is becoming increasingly involved in the KRG, even at the cost of its relations with Iraq and Iran, two neighbors that do not support the Kurdish ambition for economic independence.

Iran’s nuclear activity adds another element of friction and disagreement between Ankara and Jerusalem, and one can assume that the inability to see eye to eye on the issue will not disappear from the bilateral agenda unless the current talks with Iran produce an agreement. In the absence of such an agreement, and especially if Iran resumes the same nuclear activities in which it engaged prior to the initiation of the talks, the United States and/or Israel may attack Iranian nuclear facilities. In such a case, Turkey may be expected to protest the attack even if Turkey continues to excoriate Iran’s conduct in Syria. Turkey’s past flurry of activity in an attempt to find a compromise on the Iranian nuclear issue and make the Middle East a nuclear free zone also created tension between Turkey and Israel and between Turkey and the United States.

To date, Israel’s responses have ranged from silence to noncommittal statements about plans by various regional nations to equip themselves with civilian nuclear capabilities. An agreement with Iran allowing it to enrich uranium to a low level is liable to break the nuclear barrier in other regional

nations as well, including Turkey, which up until now has expressed interest in independent enrichment capabilities as part of its plans to construct nuclear reactors but is slow to implement plans. Concrete Turkish moves towards nuclear reactors, even if for peaceful purposes, may be viewed with concern in Israel.

Cooperation between Israel and Cyprus on energy transport is also liable to generate future tension between Israel and Turkey; this is certainly true as long as the conflict in Cyprus remains unresolved. Turkey is interested in a legal and political solution that would provide separate political status to the Turkish minority on the island, though not necessarily independence; Turkey is certainly not to blame for having prevented such a settlement from being reached until now. Nonetheless, blocking Turkey's path to EU membership (not because of the unresolved problem of Cyprus) and the discovery of natural gas reserves in Cyprus' "special economic zone" complicate the issue. Since the beginning of the deliberations on Turkish membership in the EU, Turkey has taken a relatively mild tone on Cyprus, but the recognition that full EU membership is not a realistic option is liable to motivate Turkey to take a more rigid stance on Cyprus.

The discovery of natural gas off the coast of Cyprus is liable to have a similar result. Turkey's approach to the delineation of the "special economic zone" differs from that of most countries<sup>24</sup> because of the many Greek islands situated very close to the Turkish coast. The income expected from the sale of Cypriot gas and Turkey's need for diverse energy sources are liable to push Turkey into adopting a rigid, even aggressive stance on political, legal, and economic aspects of Cypriot gas.

Cooperation between Israel and Cyprus on natural gas, both political (in an agreement drawing up the economic zones) and commercial (partial Israeli ownership of the Cypriot franchise to produce gas and the possibility of cooperation on gas transport), is indirectly liable to cause further complication in the Turkish-Israeli relations. The entire political complex of Cyprus has a great deal of relevance for Israel's decision on making its gas available to Turkey, because the pipeline that would supply the gas would be laid through Cyprus' economic waters, and one may assume that such an agreement on the part of Turkey and the Turkish part of Cyprus would not be granted as long as the intra-Cypriot conflict has not been resolved.

## **Political Advantages**

Turkey will continue to be an influential player in the region thanks to its geostrategic location, demographic size, and economic and military strength. Since its establishment, Israel invested significant efforts in building and maintaining good relations with Turkey precisely for those reasons, and because Turkey has been a Muslim society with a Western orientation that demonstrated increasing willingness to cooperate with Israel on the economic, political, and security levels.

These considerations have not changed. Israel must find a way to rebuild its relationship with Turkey, especially given the probability that the region will, for many years to come, continue to suffer from chronic instability. The past willingness of both nations to develop their relations stemmed from a calculated analysis of their interests, which led them to overcome the deep cultural differences between the two societies and other considerations. In the past, Israel and Turkey – as well as Iran – had a shared interest in cooperating on intelligence and security matters, but the Islamic Revolution in Iran in 1979 removed Israel from that triangle. Still, this did not damage the bilateral Israel-Turkey ties because, in the view of the Ankara regime, the interest in maintaining them outweighed all other considerations.

The Israeli-Turkish connection on an issue of such vital strategic importance to Turkey as energy may persuade any regime in Ankara to maintain a balanced relationship with Israel. Until five years ago the same Turkish regime benefited from Israel's willingness to use Turkey's political goodwill with Syria. Circumstances in the region have changed and now the two countries may benefit from cooperation in the energy field.

On the positive side of the risk-opportunity scale of an Israeli-Turkish natural gas deal, one should remember that 90 percent of Israel's oil import originates in Azerbaijan, and that the oil flows from Baku to the Ceyhan marine terminal on the Turkish Mediterranean coast and from there in tankers to Israel (mostly the Ashkelon port). During the course of the recent Israel-Turkey crisis, there was never a concern that the oil would stop flowing through the Turkish territory.

Turkey's involvement in Israel's natural gas exports is, under certain circumstances, likely to facilitate the development of indirect cooperation with Lebanon and international companies that would produce the natural gas located in its economic waters. This would help lower the cost of transport. The combined amounts would also affect the price that one could obtain outside

the region markets. Such cooperation between Israel and Lebanon (and, in the future, also with a Palestinian government on natural gas discovered off the coast of the Gaza Strip) has a great deal of value in stabilizing the eastern part of the Mediterranean, even absent a comprehensive Israeli-Lebanese or Israeli-Palestinian political solution.

The notion of a Mediterranean pipeline that would connect the Egyptian gas fields to the Turkish coast and, en route, be able to pick up the gas produced in fields along the way (starting in Egypt, if and when activity there is resumed, through Gaza, Israel, Lebanon, Cyprus, and Syria, should natural gas be discovered off its coast) is not new. Obviously, the feasibility of such a line would depend on political agreements among all the parties, including both parts of Cyprus as well as Turkey. Among all the infrastructure options for exporting gas from Israel, laying the pipe to Turkey is the least expensive other than the very close destinations (the Palestinian, Jordanian and Egyptian, for Egyptian domestic consumption). This dimension grants an advantage to Turkey, but other aspects must be considered.<sup>25</sup>

The balance of political reasons for and against an Israeli-Turkish gas deal is somewhat problematic. Bilateral relations have ebbed and flowed; there is no guarantee that that will not recur in the future. There is also the fact that Israel only just reached the point at which it is producing a strategic raw material (natural gas) outside the country's borders, and right now it is using almost all of it for domestic needs. Within a few years, however, there will be several pipelines and/or other installations moving Israeli gas to different destinations outside of Israel. Almost every transport of gas, whether to Israel or to other destinations, increases the vulnerability of these systems. The combination of fluctuations in Israeli-Turkish relations and the risk of terror attacks are liable to be manifested in high insurance costs when pricing any Israeli deal of exporting gas to Turkey.

In this context, one should mention that a business arrangement supplying natural gas from Israel to Turkey would require an understanding between the governments of both countries, as was the case after the Israel Electric Corporation signed its agreement with the Egyptian gas company East Mediterranean Gas. In 2005, the governments of Israel and Egypt signed a memorandum of understanding whereby Egypt guaranteed the long-term supply of natural gas without interruptions of up to 7 BCM over 15 years. The memorandum referred to other questions as well, such as the environment and taxes. The Israeli and Turkish governments must reach

similar understandings, perhaps even more complex ones; it may also be that other governments, such as the US, will be asked by US companies involved in the deal to be part of the package of guarantees. A memorandum of understanding between the Israeli and Turkish governments, certainly if it incorporates other governments such as the United States, will make it easier for the companies involved in the deal to finance have it guaranteed by the relevant financial institutions.<sup>26</sup>

Furthermore, the question of Turkey's economic stability is also liable to surface in the context of ensuring a deal and its economic and financial aspects. In recent years, Turkey has enjoyed accelerated economic development and there are, so far, no signs of weakness or a slowdown, but there has been recent worrisome news: Turkey's foreign currency reserves plummeted from \$50 billion in 2010 to \$33 billion in 2013. In April 2014, Moody's Credit Rating lowered Turkey's ranking from "stable" to "negative," and the ranking of its bonds from B3 to Baa3.<sup>27</sup> To calm foreign investors, Turkey's central bank raised the interest rate. The International Monetary Fund's March 2014 report stated that among the large economies, Turkey stood out for its instability.<sup>28</sup> The data reflect the state of the Turkish economy until quite recently, though the economic data for the first half of 2014 are better than forecast. However, anyone intending to enter into a business relationship in the magnitude of a possible gas deal with Turkey cannot ignore the informed opinions of international economic experts, such as the IMF.

Another economic aspect that the companies exporting gas to Turkey will have to face is Turkey's reference price. One may assume that Turkey will view the cost of a unit of gas originating in Russia or Iran as the base price according to which it will consider the profitability of importing Israeli gas. This price will be cited in negotiations to be conducted between companies, and the deviations from it will be affected by various considerations, such as Turkey's desire to reduce its dependence on gas imported from Russia or the low price of transport from the companies that will export the gas from Israel to Turkey. The exporters of Israeli natural gas may have their own reference price, if the talks about selling gas to Egypt bear fruit. In such a case, the price of transporting to Egypt will be lower than the price of transporting to Turkey, and the deal with Egypt may be easier to execute. Still, one must remember that a contract with Egypt is also not without political, security and economic risk.

## Recommendations

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Many media sources report that the Israeli-US consortium is conducting negotiations with a Turkish-German consortium over buying gas from the Leviathan field.<sup>29</sup> At an advanced stage of these talks, Turkey and Israel will be forced to begin negotiating a framework agreement, which – even if it deals with non-political aspects – will have great political significance. This agreement and the resolution of the crisis in Israeli-Turkish relations are not necessarily linked, and the governments of the two countries can reach an agreement even without it. But one may assume that Turkey will not be willing to reach an agreement on gas under those conditions, even if the direct supply of gas to it is a patent Turkish interest. An agreement resolving the crisis between the two countries is a precondition to an agreement on exporting Israeli gas to Turkey, and the companies trying to promote such a deal will find it hard if not impossible to achieve their goal without such a resolution. A complex question is whether Israel must insist that an agreement with Turkey explicitly state that the flow of gas will not stop for political reasons.

The involvement of foreign companies from third countries, i.e., the United States and Germany, raises the possibility of receiving a third party quasi-government guarantee in the framework agreement. This could be achieved through an annex or an official declaration that would constitute an appendix to the agreement between Israel and Turkey and add a dimension of political guarantee.

As noted, ensuring all the aspects of the deal might make it difficult to realize, and it may be possible to facilitate the issue through the involvement of insurance companies in the relevant countries where there are government insurance companies. In the United States there are two such bodies: the Overseas Private Investment Corporation and the Export-Import Bank of the US. In Germany, Euler Hermes could play that role, especially as it is already linked to the Israeli Credit Insurance Company Ltd. Another possibility is

seeking help from international institutions, such as the International Finance Corporation and the Multilateral Investment Guarantee Agency, which beyond their business involvement would also add to the political security and make sure the project was carried out at each of its stages.



## Notes

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