Energizing Ties in the Eastern Mediterranean

Gina Cohen – August 25, 2016

http://www.atlanticcouncil.org/blogs/new-atlanticist/energizing-ties-in-the-eastern-mediterranean

Offshore natural gas discoveries in the Eastern Mediterranean have created critical opportunities for cooperation among countries in the region, especially Cyprus, Egypt, Israel, Jordan, and Turkey.

Of these five countries, Cyprus and Israel have discovered more gas than either can consume over the next thirty years. Turkey and Jordan have no indigenous gas and need to import all of their needs, and while Egypt used to be a net gas exporter, it can no longer meet its own needs.

Gas is ideally consumed close to where it is extracted. It is, therefore, both economically and technically sound for countries to sell their excess supplies to neighbors that are in need.

Cooperation among the five nations in the Eastern Mediterranean can be deepened by forging synergies that would benefit from economies of size. These synergies could include: combining the development of gas fields spanning the marine borders of these countries, using existing facilities to export surplus gas to the international market (for example, the liquefaction facilities in Egypt), and constructing joint pipelines (for example, to transfer Israeli and Cypriot gas to Egypt and Turkey).

International gas trade is rarely just an economic or technical issue; it is very much governed by geopolitical considerations. Though undoubtedly complex, especially given the fact that the Eastern Mediterranean region is among the most contentious areas in the world, these geopolitical considerations are not necessarily a deterrent to regional gas trade.

Each country in the region is positioned differently, with their own inherent advantages and disadvantages. The licensing rounds and supply and demand fundamentals will impact Cyprus, Egypt, Israel, Jordan, and Turkey differently.

Egypt currently produces about forty billion cubic meters (bcm) of gas a year and imports about thirteen bcm of LNG a year. It has set an ambitious goal to not only stop importing LNG, but to in fact be able to start exporting gas again in the form of LNG. Its objective is to achieve this either from its own surplus indigenous gas by 2020/2021 or from imports of gas from Cyprus and Israel, which would be channeled to its existing liquefaction facilities to be shipped to international markets.

In Cyprus, there has been one discovery of 127 bcm of gas in the undeveloped Aphrodite field. US-based Noble Energy, Israel's Delek Group, South Korea's KOGAS, as well as Dutch-Anglo Shell have rights in some of Cyprus' thirteen offshore exploration blocks. The third licensing round, which closed in July, attracted bids from major players such as ExxonMobil, Statoil, Qatar Petroleum, ENI, and Total. The winners will be announced at the beginning of 2017.

Jordan imports LNG from Shell's facility in Qatar, as well as from Algeria and Nigeria.

In 2015, Turkey imported 48.4 bcm of LNG and consumed 47.5 bcm. Russia supplied fifty-six percent of this gas. Ankara wants to both expand the use of locally-produced lignite coal to generate electricity and is looking to increase its LNG imports by ten bcm a year. More energy opportunities are on the horizon as the Turkish parliament on August 19 approved a reconciliation agreement signed with Israel in June and the Turkish government has initiated discussions with Russia on the revival of Turkish Stream, a natural gas pipeline project between Russia and Turkey.

Meanwhile, Israel's Ministry of National Infrastructures, Energy and Water Resources will hold the country's next offshore energy licensing round in November. The ministry is likely encouraged by the fact that Cyprus was able to attract top-tier companies. But Israel is also under tremendous pressure since the sale by Noble Energy and Delek of two small offshore gas discoveries (Tanin and Karish) in August failed to attract any of the majors. Failure in the licensing round would be an embarrassment for the ministry and a reflection of the time wasted over these past two years on discussions and disagreements with oil and gas companies that are already operating in Israel.

Hopefully, companies of the caliber that have agreed to explore the Egyptian fields, despite that country's debt and instability, and the Cypriot fields, despite that country's inability to develop its sole gas discovery, will be interested in exploring the Israeli fields as well.

Cyprus will be the easiest country for companies to invest in from a geopolitical point of view. As a member of the European Union, Cyprus has access to the market in Europe, which is suffering from falling indigenous gas production and in greater need of energy imports. Cyprus' main problem is that its own market is so restricted that a critical mass of gas needs to be discovered to make an export facility, and thus development of its gas field(s), economically viable.

Of all the countries in the Eastern Mediterranean, Egypt is the only one that benefits from the double blessing of a huge local demand for gas and two available and currently idle LNG liquefaction facilities that have the capacity to export seventeen bcm of LNG a year.

Turkey, on the other hand, has half a dozen sources from which it imports its gas, and its options are only growing. Nevertheless, it is very keen to both reach an agreement on the reunification of Cyprus and to ensure that none of its suppliers alone provide more than fifty percent of its gas needs. Therefore, diversification is key and entering into a gas sales agreement with Israel and Cyprus would go a long way to achieve both these goals.

As deals are sealed, Jordan will also benefit from being able to obtain gas via a few dozen kilometers of onshore pipeline rather than from 3,000 miles away.

The countries of the Eastern Mediterranean have several options, including individually developing restricted local markets. There is also the worst-case scenario of allowing natural resources to fuel conflicts and unhealthy competition. Hopefully, the leaders of these nations are both mature and competent enough to avoid these dire scenarios and will instead focus on building synergies and cementing regional ties.

Gina Cohen is an energy consultant and also lectures on the legal, commercial, and geopolitical aspects of natural gas at the Technion — Israel Institute of Technology.

David Koranyi | Director, Eurasian Energy Future Initiative

1030 15th Street, NW, 12th Floor | Washington, DC 20005
T: 1.202.599.8619 | Cell: +1.202.445.0336| F: 1.202.463.7241 | Email: dkoranyi@AtlanticCouncil.org |
www.facebook.com/AtlanticCouncil | @AtlanticCouncil @DavidKoranyi |
www.AtlanticCouncil.org