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Energy Security and Regional Cooperation in the Eastern Mediterranean Rim

The Konrad Adenauer Regional Program Political Dialogue South Mediterranean and the Konrad-Adenauer-Stiftung Israel organized a two-day conference on "Energy Security and Regional Cooperation in the Eastern Mediterranean Rim" in Malta from 8 to 9 June 2017. The closed-door event brought together distinguished experts from countries of the Eastern Mediterranean and Europe.

The first day of discussions focused on the state of play: recent discoveries of gas fields in the Levant basin, the development and use of new technologies, as well as country presentations on key stakeholders in the region. In their welcoming remarks, Dr. Canan Atilgan, Director of the Regional Program Political Dialogue South Mediterranean of the Konrad-Adenauer-Stiftung, and Dr. Michael Borchard, Resident Representative of the KAS Israel, highlighted the geopolitical relevance of the topic and the importance of functional cooperation in the region for economic development and political stability. Contributing to this timely debate and discussing realistic and sober approaches concerning the opportunities and challenges of energy in the Eastern Mediterranean were introduced as aims of the conference.

New Discoveries and Regional Cooperation: The State of Play

The first panel set the scene for the following discussions by shedding light on the state of play of energy development and cooperation in the Eastern Mediterranean and by approaching the central question of whether new discoveries are likely to act as catalyzer for economic and even political cooperation or are rather new drivers of conflict.

New hydrocarbons discoveries off the shore of Israel, such as the Tamar and Leviathan gas fields, were given as examples for the far-reaching changes those new discoveries are expected to have on the energy sector in the Eastern Mediterranean. The discoveries exemplify the rapidly changing context of energy markets and the resulting need to frequently adapt strategies and cooperation modes. In this context, initial trust-building through smaller deals was stressed as important facilitator for a subsequently more extensive regional cooperation. Starting from existing cooperation for energy exports, such as between Israel and Jordan, relations could incrementally be expanded to also tap into export potentials with other countries, such as Egypt, Cyprus and Turkey. It was highlighted in this regard that while energy issues can easily develop into drivers of conflict when mismanaged, energy at the same time has the potential to strengthen the economic systems of the region by creating employment and motivating cooperation. However, this kind of regional cooperation cannot be expected to materialize without considerable diplomatic efforts flanking the development of energy resources. Existing deals between Israel and Jordan, as well as between Israel and Palestine were stressed as grounds for optimism in this regard. Nevertheless, the big step of turning these first rapprochements at negotiating tables into lasting regional cooperation still remains to be achieved.

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Links
www.kas.de/poldimed

Turning to underlying political interests in the region, mistrust was cited as one of the main spoilers for intensified regional cooperation and development of the energy sector in the Eastern Mediterranean. Additionally to changing commercial realities that influence the commercial feasibility of energy projects, such as low energy prices, countries of the Eastern Mediterranean are also faced with new geopolitical realities. Among other developments, EU leverage over Turkey has been diminishing which has led to a weakened motivation from the side of Turkey to advance negotiations on the Cyprus issue. Furthermore, the recent developments in the Gulf, as well as the weakened role of the US under the new administration influence the geopolitical context. It was remarked that in the Eastern Mediterranean any discussion on the development of energy resources has been dictated by politics, which is seen to hinder stronger cooperation in many cases. And while in the continuously changing geopolitical context windows of opportunity have opened up, so far the countries of the region have not managed to take advantage of these. This overwhelming role politics play in the energy sector in the Eastern Mediterranean proves problematic also due to another reason: The timelines of the private sector and governments do not match. The construction of pipelines for the export of energy was elaborated to explain this problem: While large-scale infrastructure projects like the construction of pipelines require long-term commitment to be realized, political commitments often last only from one term to the next and are subject to change due to changing strategies and alliances. The proposed Israel-Turkey pipeline stands as the prime example for politics getting in the way of economic development of energy resources: While technically the pipeline could be built without Cyprus' approval, the exact effects of such a move are hard to predict – it is however likely that it would spark further contestation. It was thus stressed that without a solution or at least first steps towards a solution to the Cyprus issue the pipeline project will not be realized. To overcome these difficulties, political will and leadership from key actors are necessary.

Furthermore, some additional strategic and political issues to be considered in the Eastern Mediterranean were discussed. These included among others the question of feasibility concerning Egypt's goal to stop gas imports and start exporting by 2022 in the current context of unclear regime stability, the role of Russia as normal commercial player in the region or rather potential spoiler, as well as domestic opposition to strengthened cooperation between countries in the field of energy, such as in the case of protests in Jordan against the deals with Israel. The Gaza electricity crisis was cited as another example of a potential spoiler for further cooperation. Given the myriad of challenges and potential obstacles to regional cooperation in the Eastern Mediterranean, it remains to be seen whether the countries of the region will be able to exploit the potential of their energy resources through strengthened cooperation and what effects these developments will have on political stability in the region.

Evolving Energy Supplies and Economic and Political Outlooks: Country Presentations

After assessing the current state of play and discussing challenges and potentials of energy developments for regional cooperation in the Eastern Mediterranean, the subsequent panels focused on some of the region's main actors – Egypt, Cyprus, Israel, Turkey and Lebanon – in order to look at country-specific developments and strategies in the energy field and at how these influence the prospects and opportunities for regional cooperation.

The discovery of the massive Zohr gas field off the shores of Egypt has changed the country's economic outlook and energy strategy considerably. Currently affected by the negative effects of its political transition and instability, such as a decline in tourism, FDIs and the devaluation of its currency, the new discoveries have created hopes of ending gas imports and starting to export considerable amounts of gas by 2022, and to eventually develop into a gas hub in the Eastern Mediterranean. Expert opinions on how likely such a development is, however,

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REGIONAL PROGRAM POLITICAL DIALOGUE SOUTH MEDITERRANEAN

June 2017

Links
www.kas.de/poldimed

differ widely. Proponents of the optimistic scenario stress that existing but currently unused pipeline infrastructure could be revived in order to facilitate the connection with other countries at a relatively low cost. Furthermore, the interest of companies to invest in the development of LNG technology to export Egyptian gas is seen as being relatively high. Both these factors are seen to favor a bright future for Egypt in the regional energy game in the Eastern Mediterranean. Skeptics however point to numerous constraints: Among others, the fraught relationship with Turkey, as well as the continuously tense domestic political situation hamper a strong economic development and regional cooperation. Furthermore, the high domestic energy demand of the Egyptian market – with some experts pointing to an even widening gap between domestic demand and supply – presents a substantial obstacle to Egypt’s export plans. The issue of domestic energy supply furthermore acts as deterrent for private companies to invest in the development of the Zohr field, since the Egyptian government is known to push companies to allocate high shares of the produced energy to the domestic market. Artificially low prices for energy on the domestic market due to government subsidies thus render these projects commercially non-feasible for companies.

For Israel, its current dependency on the Tamar gas field as only source of gas was highlighted as not only problematic in terms of the country’s energy supply, but also as constituting a major national security risk. The importance of developing additional fields, such as Leviathan, can thus not be underestimated in order to diminish this risk. The second major issue to be considered for the Israeli energy sector is the question of the shares being allocated for export and the domestic market, as well as the related consideration of the choice of infrastructure – whether offshore or onshore. With uncertainty over the construction of the EastMed pipeline, Israel is currently exploring a wide range of options regarding energy exports.

From the Cypriot perspective, the need to focus on hard facts instead of relying on opinions was stressed as priority for countries in order to adequately adjust their strategies to the continuously changing conditions on the energy market. In this regard energy prices are the key determinant. The current low oil and gas prices, caused by the abundance of resources, are expected to continue impacting the energy sector in the near and mid-term future. Low Russian energy prices make Russia hard to circumvent as energy supplier, meaning that for now it remains the most attractive energy partner for the EU rather than looking to the Eastern Mediterranean. And while there is a general potential for exports of Eastern Mediterranean gas to Asia, there again they encounter the challenge of low prices to compete with. For the future of energy development and regional cooperation in the Eastern Mediterranean, integrated projects by private companies in the LNG field were described as most promising, while the importance of pipelines is expected to further diminish.

From the Turkish perspective, the country finds itself in a relatively comfortable situation compared to other countries in the region since it is not driven by a strong demand for gas but is rather able to base its strategies on geopolitical aspirations and considerations. In the current situation, with EU leverage on Turkey diminishing, the scope for such considerations has further widened and thus makes Turkey a powerful actor – with the potential to advance regional cooperation but also to act as spoiler. This influence can be seen most clearly in the Cyprus issue. While finding itself in a more comfortable situation than other countries concerning its energy supply, it was nevertheless remarked that it would be advisable for Turkey to reduce its dependency on Russia in this regard. On a more general note, it was added that a heavy reliance on long-term projections might lead to a failure to adapt to quickly changing energy markets.

For Lebanon as one of the countries that have not yet made major hydrocarbons discoveries it was stressed that an overly export-oriented approach might not always be the best option for the energy sector in the

Eastern Mediterranean. Instead of investing heavily in export infrastructure and facing a myriad of obstacles, it was remarked that in some cases it might instead be advisable to focus on and support domestic economies first. Furthermore, it was stressed that the Chinese and American involvement in energy markets through shale gas is an issue that merits further consideration in discussions of the development of the Eastern Mediterranean energy market.

The Role of External Actors in the Energy Field in the Eastern Mediterranean

After discussing the commercial and political aspirations and strategies of countries of the Eastern Mediterranean, the discussions then turned towards the role of external actors, particularly the US, Russia and the EU.

Under the new administration, US policies show a more unilateralist, interest-driven tendency, and put increased emphasis on national sovereignty. And while US foreign policy, also under previous administrations, has been primarily driven by security considerations, under President Trump soft issues that used to complement this approach, such as the support for human rights, are now increasingly pushed aside by a stronger focus on trade and finance. As part of his "America First" strategy, President Trump has announced less involvement in other countries and regions. And while the first signs of this approach can be seen globally, the US is nevertheless expected to stay engaged in the Eastern Mediterranean since the region remains central for EU security, which – despite what it might look like – is still of great interest to the US. Furthermore, the Eastern Mediterranean presents a strategic link to other regions that the US cannot afford to lose. The weaker role of the US in the Eastern Mediterranean is for now not expected to actively hinder development of energy resources in the region. It will however take away a potential force for the speeding up of their development.

In the context of decreased US engagement, Russia is seen to aim to establish itself as global power in what it sees as a zero-sum game. Russian priorities for the region at the moment seem to be positioning itself as leader of any solution to the Syrian crisis and expanding its ties with various actors in the broader region (such as Iran, Egypt, the Kurds). With regards to the Cyprus issue, the Russian position seems a bit less clear, however, Russia is not necessarily in favor of a solution there. In the energy field, Russia at the same time acts as commercial player and as spoiler for regional development. Its strongly demand-driven strategy and sense for timing other countries seem to miss in the rapidly changing energy market, have enabled Russia to secure a role for itself in the development of Eastern Mediterranean energy resources. Its geopolitical interests however do not necessarily motivate it to contribute to peace and stability in the region.

The EU, in order to foster its energy security, has increasingly prioritized diversification of its energy supplies to reduce the dependency on Russian gas, the promotion of renewable energies, and the enhancement of energy efficiency and conservation. In this situation, the EU is struggling to find the right balance in the "Energy Trilemma": decarbonization against diversification of energy sources against the aim of finding the lowest price for energy imports. Currently, as previously remarked, low Russian gas cannot be undercut, which makes it difficult for other suppliers, such as Eastern Mediterranean countries, to compete and for importers to diversify their energy supply away from Russian gas. It is important to remark that these low prices are not created through superior technology or naturally favorable conditions – instead subsidies are used by the Russian government in order to keep prices artificially low and defend its market shares. Russia has furthermore managed to secure its position in the energy markets by occupying certain export routes before the EU – slowed down by a perceived lack of political will and decisiveness – made a move. To overcome these challenges, a stronger political and commercial leadership is needed from the EU and the East Mediterranean countries in order to better adapt to rapidly changing conditions of energy markets.

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REGIONAL PROGRAM
POLITICAL DIALOGUE
SOUTH MEDITERRANEAN

June 2017

Links
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Outlook: Towards Peace or Conflict?

In the last years an oversupply of LNG has led to increased competition activities among “traditional” pipeline producers (e.g. Russia) and new LNG exporters (e.g. US). As a result of this sudden oversupply, there was a robust decrease in hub prices, challenging the competitiveness of long-term pipeline contracts. For Eastern Mediterranean gas this means that the relatively high costs of production for the fields in the region present a major obstacle in competing with particularly low Russian gas prices.

Energy has in the past and still presents a challenge for the Eastern Mediterranean but also presents potentials for development that should not be underestimated. The challenges and potentials revolve around issues of political stability, regional integration at all levels, the level of competitiveness and innovation in the region and the region’s role as bridge between the East and the West. One of the central issues related to energy in the Eastern Mediterranean is the question of export options. There are several options for export that can be seen as competitive or supplementary: pipelines, LNG, electricity and CNG.

The final decision on preferable export options (or a combination of them) relates to a number of uncertainties: political, economic, technical, environmental, and others. Decision-making in this context involves the main stakeholders, such as Turkey, Greece, Cyprus, Israel, TDBK, EU/US, Egypt, and commercial companies. Taking into account the multitude of factors and stakeholders, decision-making sees a dispute between techno-economic and political issues as the decisive factor. While some experts argue that export options will only be chosen if commercially viable and attractive to investors, others stress the importance of politics in decisions about major investment projects, such as energy infrastructure. Environmental issues however do not seem to constitute priorities in this context. Based on an optimization model, research has shown that energy gas export options will mainly be evaluated based on techno-economic feasibility, while any progress in resolving the region’s political disputes is crucial but should be viewed as a bonus.

Based on the discussions the outlook for energy security and regional cooperation in the Eastern Mediterranean presents itself as follows: In order to fully exploit the commercial potential of hydrocarbon discoveries in the region, a strong role of the private sector supported by adequate government policies is key to ensure commercial feasibility. Regional cooperation is seen to be possible on two levels – between private companies in the form of joint projects and between countries, in order to allow for large-scale pipeline projects such as the EastMed pipeline. For such cooperation, political will and strong leadership by key actors are necessary to resolve obstacles – such as the Cyprus issue – that might block regional cooperation. If these conditions are achieved, energy resources could indeed serve to foster cooperation and peace in the Eastern Mediterranean.

Impressum

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