

## TOWARDS AN ENERGY REVOLUTION IN THE EASTERN MEDITERRANEAN: ANY POSITIVE EFFECT FOR THE EU?

*Although identified early on as a policy priority by the European Union (EU), Euro-Mediterranean cooperation on energy matters has been until now more active at the planning and rhetorical level than in practice. The unexpected discovery of giant gas fields in the Levant Basin since 2009 might change the regional energy equation and impose a necessary review of European objectives in that regard. An energy revolution is indeed brewing in the Eastern Mediterranean, to be rationally integrated in the EU's future economic outlook. The concrete economic impact for Europe is difficult to forecast as different alternative scenarios could prevail to exploit the Levant gas resources. The main consequences should be felt on the political end, as the fight to control resources will reinforce the power struggle between states, while the generalization of the rentier mindset could lead to weaker governance and more introversion.*

**Key words:** Eastern Mediterranean, energy, energy security, Levant, European Union, Euro-Mediterranean Partnership, Union for the Mediterranean.

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Since its founding, the European Union (EU) has considered the Mediterranean region as a strategically significant area, presenting both challenges and opportunities for stakeholders on both shores of the sea. The EU has therefore worked to build a consistent set of common policies dealing with the region. An essential parameter driving economic development, the energy dimension, has progressively gained in importance within the Euro-Mediterranean space.

The Mediterranean perspective really took off in the 1990s with the launching of the Euro-Mediterranean Partnership (EMP), which evolved more than 20 years later into an enlarged Union for the Mediterranean (UfM), promoting co-development on the basis of concrete cooperation projects. Among these projects the Mediterranean Solar Plan (MSP), focusing on

renewable energy (wind and solar), in a commendable attempt to reconcile the ecological preoccupation with the economic interest of the region, has been declared “a flagship for the UfM”.<sup>1</sup> Cooperation in the energy field is based on the assumption that the northern and southern countries of the Mediterranean have common interests and that their energy structures are complementary.<sup>2</sup> (Rhein, 1997, pp.102-103) The MSP as such encompasses the various dimensions of production, transmission, connection, and energy efficiency, thus exposing the current priorities of the EU in managing its energy needs.

The overall equilibrium of Euro-Mediterranean cooperation for energy implicitly relies on a certain level of expectations regarding the distribution of reserves in the Mediterranean and the interest governments

should reasonably develop about renewables. Yet the recent discovery of huge hydrocarbon resources in the eastern part of the Mediterranean might render obsolete this praiseworthy attempt to rejuvenate the Saint-Simonian utopia – an effort already meeting all sorts of obstacles of political, economic and regulatory nature.

Finding new sources of energy located close enough to European markets might in principle be considered as good news, as such discoveries theoretically bring prospects to diversify the energy supply for the EU and, ultimately, lower prices for European consumers. Yet one must try and understand with a political eye the energy revolution that may now underway in the Levant. Should the perspective of abundant energy reserves be confirmed for several Mashreq countries, the system of relations between them and the connection to their European partners might be transformed in several ways, which we try to examine in this paper. Anticipating this “energy spring” is indeed necessary both to adjust our previsions regarding Europe’s energy outlook, and to anticipate regional tensions that might undermine further European efforts to promote a Euro-Mediterranean community of energy.

## **1. The new energy deal in the Eastern Mediterranean: assessing the global impact**

New resources, new players: the energy landscape is rapidly being transformed in the Eastern Mediterranean. We presently witness the transformation of a poorly endowed region, until now essentially as a transit zone for hydrocarbons from elsewhere in the Middle East, into a potential major producer and exporter of hydrocarbons.

### *Miraculous discoveries on a grand scale*

A series of findings off the coast of the Mashrek have confirmed in the last 3 years that the Eastern Mediterranean holds promise for energy resources that may compete with the endowment of the Gulf region. The enormous potential reserves of the Levant Basin, a maritime zone limited by the coasts of Israel, Gaza, Lebanon and Syria are yet to be fully explored. Some minor marine gas fields had already been located about 15 years ago off the coasts of Egypt, and in the sea of Gaza in 2000. The findings at the time were nothing comparable in scope to the fields later identified close to Israel. In 2009, the American firm Noble Energy first located the Tamar gas field, 80 km offshore west of Haifa. Its high quality gas reserves

were estimated around 238 billion bcm (billion cubic meters). A year later another giant field, more than twice as big (560 billion bcm) was discovered in the same area and named Leviathan, after the biblical sea monster. Leviathan is the most important discovery made in deep water in the last decade. A third field, Aphrodite, was then found in Cyprus, estimated at present at more than 5 billion bcm, while a few other small pools have been detected in the same area.

According to the US geological survey, the global reserves could potentially amount to 3 450 bcm of gas - about one and a half times the annual gas production of the entire MENA region, including Iran, and 1,68 billion barrels of oil. Other offshore zones still have to be explored in the Nile Basin, which could push the total of the resources of the Eastern Mediterranean to 3,4 billion barrels of oil and 9 700 bcm of gas altogether.

These successive discoveries provoked a rush of excitement in the Mashreq, as governments immediately envisaged some potentially major economic and political benefits. Enthusiasm was also fuelled by the rising preference for gas observed on the global energy market: since 2010, the International Energy Agency (IEA) indeed frequently sustains that the world has entered the “golden age” of gas (IEA, 2012), with global gas demand bound to regularly rise in the future.

### *Staying realistic about the resources – and how to exploit them*

A spectacular redistribution of roles may indeed be underway on the regional scene if the reserves prove to meet the expectations of the most optimistic observers. Before dwelling on the geopolitical aspects of this potential revolution, a few reservations have to be stated in order to realistically identify how these resources could be exploited.

The first difficulty is of a legal nature. The hydrocarbon-rich areas are disputed between the different neighboring states. Israel and Lebanon, whose external maritime border is not well defined, disagree on the delimitation of their maritime zones. Confident in the legitimacy of its claim, and also relying on its technical edge and political capacity to sustain competition with neighboring Lebanon, Israel pre-empted the discoveries with a sort of *fait accompli* and declared unilaterally its sovereignty over most of the reserves. It then started a rapprochement with the Greek Cypriots,

a move which logically infuriated Turkey, who is doomed by geography to remain excluded from the energy blessing. Turkey questioned the pretention of the Republic of Cyprus over the Aphrodite fields and proposed to support the exploration efforts of the northern part of the island, a political entity that only Turkey recognizes as an independent state. Thus, both the pervasive effects of the Israeli-Arab conflict and the long lasting division of the island of Cyprus are bound to influence the final distribution of resources between regional stakeholders. Finally, Egypt made it known that it could claim property on part of the fields if the studies prove that Leviathan partly spreads into its Exclusive Economic Zone (EEZ).

Economically speaking, the process of exploration and production is still riddled with uncertainty. Even if the prospects look very promising on paper, the real importance of the reserves still has to be confirmed through further drilling – the drilling in Cyprus in 2012 corrected the previsions to half of the amounts that had been earlier announced (5,1 instead of 10 bcm). Let us also note that experts do not expect to find significant quantity of oil besides the gigantic gas reserves. The quality of the reserves is a good point yet costly equipment is required to retrieve them due to their location in deep sea water. Big foreign investors should get involved, yet they might only come on board if projects develop on a grand scale. (Darbouche, Fattouh and El-Katiri, 2012) This would be the case if governments decide to export the gas, which also poses technical challenges. As often happens regarding gas resources in other geographical contexts, the trouble here does not lie with the level of reserves but with the tap. (Laherrère, 2012) Before making any strategic investment decisions on future routes, the direction of exports has to be figured out: Europe or Asia?

### ***Global market interests and regional synergies***

Indeed, the global energy market balance matters to determine the real impact of the Eastern Mediterranean reserves. The size of the reserves should indeed allow the countries to become major energy exporters, besides meeting their internal energy needs. Yet the materialization of this hypothesis is anything from certain, and even in case this would take place, the consequences at regional and international level would not necessarily be spectacular. Analysts have been worrying for years over the scarcity of resources and the potential exhaustion of fossil fuels, predicting the

end of oil in a few decades from now and shifting their attention to gas as the global stock of gas reserves looked more promising. Since 2010, a series of successful explorations conducted outside of the Middle East, combined with the progress in energy development techniques, have clearly eased tensions on the energy market – and partly marginalized the MENA region as a dominant player. Notably, the exploitation of shale gas in the United States should allow America, if not to reach immediately full energy autonomy, to at least drastically decrease its dependence on imports from the Middle East. Significantly enough, the political turmoil derived from the Arab Spring, including the Libyan crisis, did not cause great global market disorders on the short term in 2011. Especially, disruptions in the Libyan supply did not have major consequences as European demand was relatively low due to the economic crisis, and a large LNG (liquefied natural gas) supply was still available. (Darbouche and Fattouh, 2011)

The mix of diplomatic rivalries and global business interests, which historically characterized the “Great Game” played by the grand powers in the region, will of course continue to influence the dynamics of the revamped Middle East energy market. Russia will not give up on its ambition to control gas resources and remain Europe’s major provider. It will thus most likely keep on implementing a mix of hard diplomacy and sophisticated business strategies in the Eastern Mediterranean to slow down the change there. Some analysts already emphasize the role of Russian and Iranian commercial interests behind their *protagonismo* in the Syrian crisis - the goal here would be to prevent the development of the Levant gas sub-market. More concretely, Gazprom obtained in March 2012 the right to buy 2-3 million tons of LNG from Tamar over 15 to 20 years, starting in 2017. Such a move illustrates Russia’s intention to become an important player in the liquefied gas technology, which is confirmed by Gazprom’s more recent proposal to participate in the building of a liquefaction plant and storage facility in Cyprus. (Reuters, 2012) At the other end of the geopolitical spectrum, Washington keeps an open eye on energy developments in the region. Some American firms are primarily involved – Noble Energy, the Houston-based gas exploration and production company, recorded the largest exploration success in its history with Leviathan. Besides, the strategic interests of Israel are now at stake, and Washington also intends to secure the inclusion of Turkey in the

game, as Ankara remains an important diplomatic ally in the Middle East. (Mankoff, 2012)

## **2. Impact for the EU: between customers' interests, sustainable development and grand geopolitics**

The EU position on the energy market is characterized on the long run both by its frailty and versatility: Europe is a net buyer, yet it has potentially numerous options to satisfy its (slightly) increasing energy demand. The perspective of an additional gas supply from the Eastern Mediterranean may not prove automatically appealing. In contrast, the political and geopolitical impact of this new energy deal might seriously impact the EU's strategic vision for the future of the Mediterranean.

### ***Europe's general energy perspective in the Mediterranean: how to promote a sense of shared responsibility***

The EU has long identified the Mediterranean as an important element in its energy puzzle, and energy has been emphasized as an area where to foster Euro-Mediterranean rapprochement. (Eurogroup Consulting, 2012) Euro-Mediterranean energy cooperation thus features high on the priorities of the UfM, based on two basic assumptions: solidarity and complementarity. By solidarity, it is understood that the EU and Southern Mediterranean countries share an essential interest in fostering strong and sustainable economic growth, requiring secure, diversified and affordable energy supplies. Moreover, their energy needs and structures are presented as complementary, justifying efforts to enhance regional interconnections and market integration, including by harmonizing rules and standards. (EU Neighbourhood Info Centre, 2012)

The utopia of a Euro-Mediterranean energy sub-system in construction fits in the more global common framework that the EU member states have progressively and rather reluctantly designed in order to coordinate even minimally their energy policies ("Climate and Energy Package", 2008; "Strategy Energy 2020", 2010). Yet energy policy efforts in the Mediterranean precisely run into the same problems than in any other context: difficulties to bring national viewpoints together, to manage the public/private mix of interests, especially with regards to the need for large-scale investment in the near future; and inertia of policy decisions relative to the dynamics of the market.

Under such constraints, only minimal common policy directions can be defined, and put into practice

through some exemplary projects. The Mediterranean Solar Plan matches all priorities, with a special emphasis on renewables, particularly adapted to the context of a fragile Mediterranean ecosystem. For some time, the MSP appeared as the more promising project of the UfM, effectively involving private sectors firms from several EU member states and operating in 9 Southern Mediterranean countries with an ambition to encourage transnational planning. Yet its implementation met all sorts of obstacles and its development remains, if highly symbolic from a political perspective, quite experimental and marginal from an economic perspective.

The boom of energy resources in the Eastern Mediterranean might push for a redefinition of common energy objectives inside the Euro-Mediterranean community. In principle, the pillars of solidarity and complementarity remain valid. In the short run, one could nonetheless fear that the weak consensus in favor of sustainable development and energy efficiency will be endangered by the abundance of new supplies. Yet this will only happen if new energy flows materialize between the Levant and Europe.

### ***Less enthusiasm for additional supply***

In response to regular tensions over gas with Russia, the EU has been engaged in an effort to diversify its supplies - a strategic attempt notably undermined by the particular views of some member states and the situation of infrastructures, Germany and Italy being notably less keen on breaking the Gazprom monopoly. The main alternative resources focusing European interests until now are from the Caspian region. Azerbaijan, Kazakhstan, and Turkmenistan appear as the new energy frontier and inspire several projects of additional pipelines to Europe, known as the South Corridor.

Eastern Mediterranean resources may now stand as another option. Yet choices for strategic diversification must meet rational economic calculations. The enduring impact of the economic crisis affects European demand and energy supply currently looks abundant. The surplus of gas provided by the exploitation of Eastern Mediterranean fields might thus only reinforce the trend towards a buyer's market. European countries will only contract for new Mediterranean gas if it is cheap and abundant and their views on pricing may well dissuade producing countries to export. It may also incite them to turn to big Asian markets and

leave aside the small, relatively declining and too competitive European ones.

Nevertheless, the marketing of resources largely depends on existing capacities to carry them to the final customers. Should Israel and Cyprus contemplate striking deals with some EU partners, they have to think in advance about the routes. This entails both technical and geopolitical challenges in the Eastern Mediterranean. Egypt's energy minister already announced that he would oppose exporting the newly found gas (implicitly: the Israeli gas) to Europe through the Egyptian pipeline system. Many other possibilities have been evoked, all of them carrying their specific set of difficulties. Building a pipeline between Cyprus and Greece has the favor of the Greek authorities, as it may provide them with important side revenues. A pipeline going through Turkey would certainly have the preference of Washington, but seems politically unthinkable because of present inter-state strains in the region. The same is true regarding the hypothesis of other sections of pipelines carrying gas from Israel through the neighboring Arab countries. The most credible solution is to turn to LNG and ship the gas to parts of the world where customers would be found, including possibly in Europe. This implies building a liquefaction facility in Cyprus, maybe in Israel. The cost of such facilities is high and Israel tends to get burdened with security parameters.

In conclusion, the scenario of the exploitation of the new resources in the Eastern Mediterranean is not written in advance, and the new state of play may have no dramatic economic impact for the EU. All of these uncertainties explain the rather cautious attitude of EU firms. If ENI and Total have entered consortia to explore some of the blocks off Cyprus, the major bids emanate to date from Gazprom and Australia's Woodside Petroleum on Leviathan. (Wardell and Ari Rabinovitch, 2012)

### ***Geopolitics and the EU: reinforcing the power struggle in the region***

From this rather gray economic forecast, we can infer very little risk that the weak European discipline in defining common objectives is to be further threatened. Yet the EU's vulnerability could be more exposed on the political side. America is now sending signals that its energy dependence towards the Middle East is over. This is the result of a deliberate strategy of reorientation, in contrast with the European engagement

in a region where new players in the energy game are bound to intentionally revive the power struggle.

Reaching energy sovereignty as a means for political autonomy: this is how the governments of all Levant countries blessed by the new deal started to envision their future immediately after the first offshore drillings. If exploited rationally, the resources could help give a decisive boost to their economic growth rate. Cyprus and Israel are indeed on the verge of becoming self-reliant, covering their own energy consumption needs and possibly exporting part of the gas, which could secure substantial external revenues. The political implications of this energy revolution is especially important for Israel, which will most likely overcome in the near future its chronic energy stress, freeing itself from a constant security concern over whimsical providers like Egypt. (Amsellem, 2012) The Lebanese energy minister also expressed the hope that the energy constraint presently weighing heavily on Lebanese national accounts would be alleviated. Although being aware of the governance challenges lying ahead before entering the golden era of energy autonomy (Sarkis, 2012), he even affirmed that Lebanon could become an energy hub for the Mediterranean.

Such a statement suggests that we may be entering a turbulent period where Israel, Lebanon, Cyprus, even Turkey, will be ready to compete with one another, or strike temporary and reversible alliances, in order to ameliorate their status in the regional power game. The Mashrek, especially after the "Arab Spring", can be characterized as a globally instable and non-cooperative environment, doomed with a litany of declared and potential conflicts. The probability to see new inter-state conflicts directly provoked by fights for energy resources remains rather low. Yet rising animosity does not bode well for the resolution of older disputes. In an ideal world, growing economic integration should push in favor of a resolution for both the Israeli-Arab conflict and the Cyprus issue. (International Crisis Group, 2012) Under the present conditions of uncertainty regarding the economic prospects to develop the gas fields, the disputes over maritime boundaries seem on the contrary to cause additional strain. When Lebanon claimed its right over the fields, and the leader of the Hezbollah, Hassan Nasrallah threatened to target Israeli facilities, Israel warned it would use force to protect its gas discoveries. Turkish authorities also took the issue seriously enough to send warships to Cyprus in retaliation for Noble's first drillings in block 12 in the fall of 2011.

These tensions put in danger the ideal of a pacified Mediterranean that Europe has been pursuing, albeit with mitigated success, since the launching of the EMP. More concretely, the Turkish energy minister also threatened to bar from future energy projects in Turkey all foreign companies that would engage in the development of the Aphrodite field with the Republic of Cyprus. (Darbouche, Fattouh and El-Katiri, 2012) Such intimidation attempts show how tensions in the Eastern Mediterranean could indirectly yet seriously affect some European interests.

### *Generalizing the rentier system: impact for sustainable development in the region*

Finally, the energy revolution in the Levant should also have an essential structural impact on the governance systems in the countries concerned.

So far, all of these countries had been excluded from the regional club of rentier states. The rent resulting from the exploitation of hydrocarbon resources has for the last 40 years paved the way for the financial – and to some extent the economic – supremacy of the Gulf monarchies and of some North African states (Algeria, Libya, Egypt) in the MENA region. While the new energy discoveries in the Levant could modify the overall dynamics of regional economic development, their management might also infer internal changes of a political nature at the level of states.

Energy efficiency and balanced economic growth are indeed not the only motivation of governments to fight for the appropriation of the gas resources: most politicians are dreaming of the rent, deemed in contrast by most political scientists to be a curse, especially in a context of weak legitimacy and mediocre accountability of institutions. The spreading of the rent culture in the Mediterranean is certainly no good news for a European Union which has devoted all its reforming efforts in the last 15 years to the consolidation of economic liberal systems. The flaws of the rentier system are well known in the region. The concentration of the nation's wealth in the hands of the state or big monopolies amounts to an indifference for economic efficiency and a disinterest in sustainable development planning. On the political side, such distortions usually lead to less accountability and, in the case of most Arab states, autocratic tendencies. The ongoing debate in Israel about the future use of resources from the gas fields – what proportion to keep for internal use vs. export - suggests yet another type of difficulty:

energy autonomy seems to be associated by some to a flawed ideal of economic isolation, which would only reinforce the Israeli feeling of not belonging to the region. (Trilnick, 2012)

### **3. Preparing EU policies for the energy revolution in the Eastern Mediterranean**

At this stage, alternative scenarios should be drawn to forecast the system of Euro-Mediterranean relations that will emerge with the new distribution of resources, and infer basic principles inspiring future common European efforts.

#### *Scenarios of aggregation: how relations could evolve between the EU and its Eastern Mediterranean partners*

The main underlying question relates to the intensity of the new energy partnership that may emerge between the EU and the newly energy blessed Mediterranean countries. Three main scenarios could be imagined.

##### *- The UfM soft scenario revisited: energy fostering cooperation*

In the first, optimistic scenario, the new Eastern Mediterranean puzzle may be recomposed in a harmonious way. Realizing the importance and sophistication of infrastructures needed to exploit their energy resources, the states finally enter in a virtuous circle of transnational cooperation. The new energy deal effectively spurs robust, sustainable growth and introduces a positive environment allowing for a progressive easing of political tensions. The EU can build on its past set of privileged relations with stakeholders to launch a Euro-Mediterranean energy community, serving its own objectives in a spirit of solidarity and co-development.

##### *- The competitive scenario: Europe bypassed*

In the second scenario, Israel and Cyprus succeed in rapidly developing their resources, taking advantage of the rather confused legal situation and their greater degree of preparedness to advance their own interests. The urgency to exploit the reserves and to find new markets leads to quick shifts in alliances towards extra-Mediterranean powers – Russia, Australia and China, through the building of operational consortia. The EU is progressively marginalized in the local energy game. This does not induce a significant economic loss in the short run, yet it may lead to political estrangement over the longer run.

## - The conflicting scenario

In the worst case scenario, tensions between Israel and Lebanon, Israel and Turkey reach a high point, against the backdrop of an enduring Syrian crisis. Micro-conflicts erupt over the delimitation of maritime boundaries, practically hindering the exploitation of resources. The situation is one of an almost *status quo*, except that growing strains render peacemaking efforts more strenuous. External powers willing to increase their strategic influence in the Levant - Russia, Iran - integrate the energy potential of the region in their calculations and play a decidedly disturbing role. The EU is unequipped to balance them and left helpless, to suffer from the devastating consequences of such instability both in its regional cooperation and at home.

## Early recommendations for EU external policies

Uncertainty remains as to whether the giant resources of the Eastern Mediterranean can and will be exploited rationally. As a synthesis, the energy revolution brewing in the Eastern Mediterranean may have in the long run consequences as important as the Arab Spring, impacting on the regional balance of power and possibly weakening the basis for a fragile Euro-Mediterranean consensus on energy matters. It may finally marginalize Europe as an economic player and lower its political capacity of influence in the region.

While waiting for the situation to settle down, the basic recommendations for European policy-makers would thus be to:

- Take for once seriously the sub-regional Eastern Mediterranean dimension of the UfM, in a comprehensive effort to assess the ecological, political and economic dimensions of the energy game;

- Reflect upon the best ways to provide Eastern Mediterranean governments with legal advice on international maritime law, and instruments to settle legal disputes;

- Encourage European energy companies to form business pools and devise a common approach for the region, in order to become more vocal and weigh more in future negotiations;

- Involve non-Mediterranean stakeholders (Gulf States, Russia, Australia, China, etc.), at the level of governments and business, in regular exchanges about energy security and routes from East to West.

## Endnotes

- 1 Union for the Mediterranean, <http://www.ufmsecretariat.org/en/a-few-key-points-about-the-msp/>.
- 2 To trace this preoccupation back as early as the 1990s, see, for instance, Rhein, 1997.

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## About the CIES

The Center for International and European Studies (CIES) at Kadir Has University was established in 2004 as the Center for European Union Studies to study Turkey's European Union accession process. Since September 2010, CIES has been undergoing a major transformation by widening its focus in order to pursue applied, policy-oriented research and to promote debate on the most pressing geostrategic issues of the region.

Its areas of research and interaction include EU institutions and policies (such as enlargement, neighbourhood policies and CFSP/CSDP), cross-cutting horizontal issues such as regional cooperation, global governance, and security, inter alia with a geographical focus on the Black Sea Region (including the Caucasus), the Mediterranean, Southeastern Europe, Turkish-Greek relations, and transatlantic relations.

## About the Black Sea Trust for Regional Cooperation

The Black Sea Trust for Regional Cooperation (BST), a project of the German Marshall Fund of the United States promotes regional cooperation and good governance in the Wider Black Sea region; accountable, transparent, and open governments; strong, effective civic sectors; and independent and professional media. To respond to the rapid shifts in the region, BST staff regularly consult with regional experts and aim to sharpen the program's grantmaking strategy in order to more effectively achieve the Trust's goals. Taking into account the complexity and diversity of the region, BST priorities are revised regularly and adjusted to respond to the region's changing needs. Adjustments are made in consultation with the BST Advisory Board, the German Marshall Fund's network of offices and internal expertise, and in coordination with other donors active in the region.

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The *Neighbourhood Policy Paper* series is meant to provide the policy, research and professional communities with expert input on many of the important issues and challenges facing, in particular, the Eastern neighborhood of the European Union today as they are written by relevant experts. The analysis provided along with the relevant policy recommendations strives to be independent and not representative of any one particular perspective or policy. Most of these papers are also translated into Russian so that they are accessible to the Russian speaking world in an attempt to enlarge the scope of the dialogue and input on neighborhood-related issues. The key priority is to maintain the focus of the policy debate on the Black Sea Region and the wider region including its interaction with the Mediterranean South.

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