



The New Emerging Energy Hub in the Eastern Mediterranean

The projected gas pipeline between Israel, Cyprus, Greece and Italy confirms that Israel's regional partnership has shifted from Turkey to Greece and that a new energy hub is emerging in the eastern Mediterranean. Yet this welcome geopolitical change has many opponents. Israel will need to act proactively and assess energy-related power struggles within the EU in order to actualize the pipeline.

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In November 2018, Israel signed a Memorandum of Understanding with Cyprus, Greece and Italy for the construction of the world's longest natural gas pipeline. This pipeline, meant to export Israeli and Cypriote natural gas to the European Union (EU), will turn the eastern Mediterranean into a major energy hub. Israel's decision to choose Greece, rather than Turkey, as a transit country is significant. It confirms that Israel's geopolitical partnership in the eastern Mediterranean has shifted from Turkey to Greece.

This article explains why and how Israel's partnership in the eastern Mediterranean has shifted from Turkey to Greece, and it argues that the emerging energy hub between Israel, Cyprus, Greece, and Italy should not be taken for granted because of its cost, because of the many opponents it has in Europe, and because of to the current makeup of the Italian government.

Despite political obstacles, the prospects of the energy hub in the eastern Mediterranean have recently been improved by the creation of two geopolitical partnerships: the tri-lateral secretariat between Israel, Cyprus, and Greece; and the Eastern Mediterranean Gas Forum established in January 2019 between Israel, Egypt, Greece, Cyprus, Italy, Jordan, and the Palestinian Authority. Yet Israel must remain proactive to ensure that the gas pipeline project becomes a reality. This paper explains how.

1. Israel's Shifting Partnerships in the Eastern Mediterranean

Israel's relations with the countries of the Eastern Mediterranean have gone through profound changes. Israel used to have a partnership with Turkey and tense relations with Greece. Today, Israel has a partnership with Greece but tense relations with Turkey have become hostile.

In recent years, relations between Israel and Greece have improved considerably, due to common geopolitical interests created by Israel's emergence as a natural gas exporter, but also because of the deterioration of relations between Israel and Turkey. Israel discovered the huge Leviathan gas field in 2009, shortly before the 2010 Marmara incident, which contributed to the rift between Israel and Turkey. In 2010, Benjamin Netanyahu became the first Israeli prime minister to visit Greece, and the Israeli and Greek air forces started their first joint military exercises. In September 2011, Israel and Greece signed a security cooperation agreement. Israel now uses Greek airspace for training purposes.

In June 2017, Israel, Greece and Cyprus announced that they would cooperate in the construction of a pipeline linking the three countries with the aim to deliver natural gas to the EU. Cyprus has its own large gas field (Aphrodite), and therefore a partnership between Israel and Cyprus can turn the two countries into a significant joint gas exporter. Greece, for its part, has a weak economy and wants to be a transit country for the export of Eastern Mediterranean gas to the European continent. Israel, in turn, is eager to improve further its relations with Greece due to the deterioration of the Israel-Turkey relationship.

The signature, in November 2018, of a Memorandum of Understanding between Israel, Cyprus, Greece, and Italy for the construction of the world's longest pipeline clearly indicates that Israel has chosen the Greek option over the Turkish one. In the past, Israel had considered a pipeline to Europe via Turkey because building a natural gas pipeline via Turkey would have been cheaper. But it became politically problematic due to Turkey's hostile policy toward Israel, Cyprus, and Greece. Despite political tensions, however, Turkey still has an interest in becoming the transit country between the East Mediterranean gas and the EU.

The new natural gas partnership in the Eastern Mediterranean has the potential of playing an important role in Europe's effort to diversify its natural gas exports and to reduce its dependence on Russia. Israel, Greece, and Cyprus all benefit from the natural gas partnership. Israel acquires stronger leverage and strategic value vis-à-vis the European Union (EU) by becoming a natural gas exporter. Cyprus gains international importance and income. In May 2013, Cypriot president Nicos Anastasiades called Israel a "strategic partner."¹

Greece is strengthening its weak economy by joining an energy hub. Israel, Greece and Cyprus are also increasing military cooperation. Greece's partnership with Israel and Cyprus is boosting its status of energy hub, a status it started acquiring in 2013 with the decision to build the Trans Adriatic Pipeline (TAP), which will transport gas supplies from Azerbaijan to the EU via Turkey, Greece, Albania, and Italy. Greece also has the potential of becoming a natural gas exporter in its own right: studies conducted by Norwegian company Petroleum Geo Services (PGS) in 2012 and 2013 suggest the possible existence of oil and gas resources in Greece (south of the island of Crete).

While Greco-Israeli relations have improved, relations between Israel and Turkey have deteriorated. In 2002, Erdogan's "Justice and Development Party" won Turkey's

general election. Erdogan changed the course of traditional Turkish policies, both domestically and internationally. He became outspoken in his support for Hamas and in his criticism of Israel.

Turkey is opposed to the Israel-Cyprus-Greece partnership in natural gas, but it has not been able to stop it. While it seeks to reduce its natural gas dependence on Russia, Turkey has been bypassed by the pipeline project concluded between Israel, Greece, Cyprus, and Italy. Turkey imports 99% of its natural gas (60% of which comes from Russia), and the gas produces half of its electricity. Turkey sees Israel as a potential supplier of natural gas, but relations have deteriorated, and Israel and Turkey are unlikely to team-up on natural gas.

Natural gas has also transformed Israel's relations with Egypt. In September 2018, it was announced that Israel will begin selling natural gas to Egypt in 2019. With that deal, Egypt is joining the Eastern Mediterranean energy hub. The agreement will enable the flow of 64 billion cubic meters of gas from Israel to Egypt. Relations between Egypt and Israel have improved since Abdel Fatah el-Sisi became president in 2013, replacing the Islamic regime that had halted all economic cooperation with Israel. An existing natural gas pipeline, which runs from El Arish in Egypt to Ashkelon in Israel, was idled in 2012 due to repeated terrorist attacks. It now be reversed to enable gas exports from Israel to Egypt.

Egypt hopes that its own natural gas sources (in the Zohr field), combined with imports from Israel, will enable it to resume LNG (liquefied natural gas) exports thanks to two facilities for gas liquefaction on its Mediterranean coast. A consortium named EMED has been formed between Israeli company Delek Drilling, the American Noble Energy, and Egyptian East Gas. Delek and Noble have also signed agreements with Jordan for the export of natural gas.

In the Eastern Mediterranean, Israel's regional partnership has shifted from Turkey to Greece, and the energy partnership with Egypt has been restored. Yet this emerging energy hub has many opponents whose ability to disrupt the pipeline project should not be taken lightly, as explained below.

2. Securing the Eastern Mediterranean Energy Hub

Turkey lacks energy resources of its own but is strategically located between an energy-dependent Europe and the energy-rich regions of Central Asia and the Middle East. Hence does Turkey have the potential of becoming an energy hub, a potential that Turkey's president Erdogan wants to turn into a reality. The discovery by Israel of the Tamar and Leviathan gas fields granted Turkey the opportunity to realize its geopolitical ambitions. Despite Erdogan's aggressive rhetoric against Israel, he tried behind the scenes to convince Israel to build its Europe-bound gas pipeline via Turkey. Similarly, as Erdogan represses the Kurds, he has also trying to convince the Kurdistan Regional Government (KRG) in northern Iraq to create a new oil pipeline that would deliver oil to the Mediterranean via Turkey. Erdogan's energy ambitions were frustrated in 2018 with the announcement of the US-backed natural-gas pipeline project between Israel, Cyprus, and Greece. Turkey opposes the project and it has threatened to use military force if Cyprus exploits and exports its

gas resources without Ankara's approval (Turkey occupies northern Cyprus, and it claims rights over the island's natural gas resources). Yet Turkey's threat has been deflated by the Trump Administration's strong support for the new energy partnership between Israel, Cyprus, and Greece. Indeed, Trump threatened recently that the US would "devastate" the Turkish economy were Erdogan to use military force against the Kurds.

The fact that Turkey has been unable to derail the energy partnership between Israel, Cyprus and Greece does not mean that this partnership does not have other opponents. Shortly after the announcement of the Memorandum of Understanding on the Israel-Cyprus-Greece-Italy pipeline in November 2018, a "Spain-Israel Strategic Dialogue" was hosted in Madrid by ELNET (an NGO committed to strengthening relations between Israel and Europe). It emerged from this dialogue that the Eastern Mediterranean energy hub has many opponents in Spain. The Israel-Cyprus-Greece-Italy pipeline is often described by its detractors as a "pipe dream." In Madrid, a Spanish energy expert said of the project: "it's not a pipe dream, it's a pipe nightmare."

The same expert made three arguments against the pipeline: a. If Israel, Cyprus, Greece and Italy think that their pipeline makes sense, let them prove it by raising private funding for it before asking the EU to put taxpayer money into the project; b. A new energy hub in the Eastern Mediterranean would compete with Spain (which happens to have the EU's highest capacity of LNG regasification, i.e. the process of converting LNG to natural gas); c. Developing new natural gas pipelines makes no sense anyway, since the EU will eventually rely entirely on renewables to meet the targets of the 2015 Paris Agreement.

Though the third argument is debatable (many energy experts doubt that Europe can rely exclusively on renewables), the second one is understandable: Spain has the EU's highest capacity (39%) of LNG regasification. Spain is going to lobby against putting EU money into a project which it doesn't want in the first place. Besides Spain's interests, however, there are significant voices in European think-tanks and among policy makers that demand that all European energy investments be made in renewables to meet the targets of the 2015 Paris Agreement.

In 2014, the European Commission stated that it intended to create "a Mediterranean gas hub in the South of Europe."² What is now called in Brussels the EMPG (East Med Gas Pipeline) received € 2 million from the European Commission for feasibility studies in May 2015. In April 2017, the EU's Energy Commissioner, Miguel Arias Cañete (who happens to be Spanish), joined the ceremony in Israel where the energy ministers of Israel, Italy, Greece and Cyprus declared that EMPG "represents a strategic priority for exporting into Europe part of the current gas reserves of the Eastern Mediterranean."³ In January 2018, the European Commission granted another €34.5 million for EMPG to complete its feasibility studies. While the European Commission describes EMPG as a "Project of Common Interest" it has yet to officially approve it and to dedicate funding for its implementation.

The EU's official energy policy is to improve energy security by reducing European dependency on Russian gas and by diversifying its energy supplies. Since the 2015 Paris Agreement, the EU must also significantly reduce its carbon emissions. Energy experts, policy makers and NGOs disagree about whether the energy transition should include natural gas or be based solely on renewable energy. Some argue that renewable energy sources are not reliable enough, while others claim that all fossil fuels, including natural gas, should be eliminated from Europe's future energy mix.

The European Commission's financial support for EMPG is criticized by those who would like European tax money to be spent exclusively on renewable energies. For example, energy expert Simone Tagliapietra (a professor at John Hopkins University and a fellow at the influential Brussels-based Bruegel think tank) writes that natural gas "does not need EU support in order to progress" and that the EU should invest in solar and wind energy in Mediterranean countries instead.⁴ Tagliapietra dismisses EMPG as "probably unnecessary" because, in his estimation, importing gas from the Eastern Mediterranean would likely be more expensive than importing gas from Russia.⁵

This view is shared by some key members of Italy's current government, an unlikely coalition between the Liga party and the Five Star movement. Liga is a nationalist party, while Five Star is anti-establishment grassroots movement with eclectic views. Liga and Five Star strongly disagree on energy policies. Liga, whose leader and Interior Minister Matteo Salvini visited Israel in December 2018, is in favor of EMPG and a broader partnership with Israel. Five Star, on the other hand, is against promoting non-renewable energy projects, and it does not favor the upgrading relations between Italy and Israel. Italy's Ministry of Economic Development (which oversees energy policy) is currently headed by Five Star leader Luigi Di Maio.

During the 2018 electoral campaign, Five Star had committed to halt the Trans Adriatic Pipeline (TAP). Yet in October 2018, Di Maio reneged on this commitment because pulling out from the project would have cost Italy € 20 billion in penalties. By contrast, Italy would not face any penalty were it to pull out from EMPG. Because of deep divisions within Five Star, some predict that the party will eventually split between moderates and radicals. Matteo Salvini hopes to form a new government with the "reasonable" faction of Five Star after a possible split of the movement. In such a scenario, Salvini would likely become prime minister and he would be able to promote EMPG as well as the strengthening of ties with Israel.

The future of EMPG, in other words, depends not only on power struggles within the EU (although the European Commission has agreed to put money into EMPG's feasibility studies, some EU members such as Spain as well as influential think tanks want EU money to be spent only on renewables), but also within the Italian government. If and when Salvini manages to split Five Star and to form a new government supportive of EMPG and of further cooperation with Israel, the prospects of EMPG shall improve. Yet there is no guarantee that Italy's Five Star Movement will split and that a new Italian government will emerge in the coming

months. Hence the importance of maintaining a close working relationship with Salvini.

In January 2018, the "Eastern Mediterranean Gas Forum" (EMGF) was established between Israel, Egypt, Greece, Cyprus, Italy, Jordan, and the Palestinian Authority. This is a significant move that formalizes the new energy partnership in the Eastern Mediterranean. This new structure (whose secretariat will be in Cairo) will not suffice to overcome opposition to EMPG, as one significant obstacle to EMPG is the project's high cost (estimated at \$ 7 billion). Yet this new Mediterranean partnership will give a stronger impetus to a double geopolitical interest shared by Israel and by the United States: a. Curtail Russia's domination of the European energy market; b. Counterbalance Iran's access to the Eastern Mediterranean via Syria.

By linking Egypt to Israel via natural gas, EMGF is frustrating Iran's regional ambitions. During the brief regime of Muhamad Morsi and of the Muslim Brotherhood in Egypt (2012-2013), Iran hoped to turn Egypt into a client state for natural gas. Such a scenario was not unlikely after the signature of the nuclear deal (JCPOA) in 2015 and the lifting of sanctions on Iran. EMGF is the ultimate proof that the Trump Administration has convinced Egyptian President el-Sisi to remain in the realm of US allies and to downgrade Egypt's ties with Iran.

Another reason for America's support for the new Eastern Mediterranean alignment is that Washington is concerned by the rapprochement between Russia and Turkey (a NATO member that recently purchased Russian S-400 missiles). Hence the recent statement of US Secretary of State Mike Pompeo that the Eastern Mediterranean is "an important strategic border" and that "the US is working to strengthen our relations with stable democracies and democratic allies there. Allies like Greece and Cyprus and Israel." Precisely because EMPG is more expensive than its alternative (the once considered route via Turkey), American financial support will be critical for the project's completion.

On the December 20, 2018, Israel hosted a trilateral summit with Greece and Cyprus in the city of Beer-Sheva. The summit was attended by US ambassador to Israel David Friedman, who declared that the United States fully supports EMPG since it "aims to diversify energy sources in the area and ensure energy security in Europe." Friedman did not mention Turkey in his speech.

The eventual success of EMPG is related to Europe's energy dependency and to Europe's policy of reducing this dependency. The EU imports two-thirds of its energy needs, mostly from Russia, Norway, Algeria, and Qatar. Yet Norway's natural gas production is declining. The largest European importers of natural gas are Germany, Italy, France, Belgium, and Spain.

Russian gas is a mixed blessing for the EU. On the one hand, it is cheaper than other gas supplies such as far-away pipelines and LNG imports. On the other hands, it creates an economic dependency toward a geopolitical rival. Russia's natural gas giant, Gazprom, is carefully maintaining this dependency by keeping its exports prices to Europe at comparatively low levels. Future gas imports from the East Mediterranean will therefore have to be competitive price-wise in order to have

an impact on the EU's import policies. Moreover, the Eastern Mediterranean is not the only alternative to Russian gas. Other possible suppliers include African countries such as Mozambique, Tanzania, Senegal, and Mauritania. The EU could also buy LNG from the United States.

Given these potential alternative supplies, it is significant that the EU has granted EMPG the status of PCI ("Project of Common Interest"). For a project to be designated a PCI, it must meet certain criteria, such as having a positive impact on the energy markets of at least two EU countries; enhancing competition within the EU; and contributing to EU energy integration as well as to the diversification of energy sources.

For the EU, Egypt's LNG terminals potentially constitute an attractive source of gas supplies, since Egypt has enormous gas reserves as well as the infrastructure to export them. In fact, Egyptian LNG would be cheaper than investing in EMPG. On the other hand, Egypt's ability to export is limited because of its own domestic needs. Since the EU has extended regulatory powers over the energy market, it can use incentives and subsidies to encourage EMPG. For this to happen, Israel should ask its allies in the "Visegrad Group" (Poland, Czech Republic, Hungary, and Slovakia) to put their weight behind EMPG.

Israel is a new and inexperienced player in the field of energy diplomacy. It could and should follow the example of the United States which established (under the Obama Administration) a Special Envoy and Coordinator for International Energy Affairs to manage energy diplomacy, with a special focus on the Eastern Mediterranean. Establishing a similar body would likely help overcome some of the obstacles to the implementation of EMPG. The special US energy envoy played a critical role in promoting American energy interests, for example by mediating in politically sensitive situations, such as the gas deals between Jordan and Israel. A special Israeli envoy should be appointed to play a similar role in the EU.

While Israel's partnership shift from Turkey to Greece seems durable, the emerging energy hub between Israel, Cyprus, Greece and Italy should not be taken for granted. It is opposed by countries that do not want a major energy competitor in the Mediterranean (such as Spain); by European think tanks and policy makers that want EU money to be spent exclusively on renewable energies; and by key players in Italy's current government.

The establishment of the Eastern Mediterranean Gas Forum is therefore a welcome move for Israel, since it formalizes the new energy hub which now includes Egypt and Jordan, as well as the Palestinian Authority. This new partnership is critical to secure the status of Israel as a global energy player. Yet the future of this partnership also depends on securing US financial support and on overcoming the voices and forces in Brussels that want to eliminate all fossil fuels from Europe's future energy mix. Israel should secure the support of the Visegrad Group for EMPG and appoint a special envoy for energy policy to promote EMPG within the EU.

Other factors are beyond Israel's control. They include the global prices of natural gas, the evolution of geopolitical tensions between Russia and the EU, and the future of Italy's current coalition. It is therefore critical for Israel to closely monitor political evolutions in Europe and to maintain close relations with Italy's pro-EMPG politicians as well as with European governments whose voice and vote will impact on the EU's energy policy.

¹ Yossi Alpher, *Periphery: Israel's Search for Middle East Allies* (Rowman & Littlefield, 2015), p. 108.

² European Commission, "Communication from the Commission to the European Parliament and the European Council: European Energy Security Strategy," Brussels, 28 May 2014, p.16.

³ Theodoros Tsakiris, Sinan Ulgen, and Ahmet K. Han, *Gas Developments in the Eastern Mediterranean: Trigger or Obstacle for EU-Turkey Cooperation?* FEUTURE Online Paper No. 22, May 2018, p. 7.

⁴ Simone Tagliapietra, "The Euro-Mediterranean Energy Relationship: A Fresh Perspective." *Policy Brief*, Issue 4, October 2018, p. 3.

⁵ Simone Tagliapietra, "Is the East Med gas pipeline just another EU pipe dream?" *Bruegel* (Bruegel.org), 10 May 2017.

