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Abstract

This article discusses the relationship between natural resources and regional political cooperation in Eastern Mediterranean. The gas reserves discovered off the coasts of Israel and Cyprus promise peace and prosperity for the region. Estimated at 1 trillion cubic meters, the reserves in Leviathan, Aphrodite and other fields can enhance the energy security of not only Cyprus and Israel but also Turkey and Europe, as the latter two seek to diversify their energy imports. A Mediterranean gas pipeline would conceivably foster political cooperation among Turkey, Israel and Cyprus by creating conditions of economic interdependence, which according to the liberal theory of interdependence, is a source of peace and cooperation. This article however finds little evidence that energy has so far facilitated cooperation among the Mediterranean states with outstanding disputes. On the contrary, the discovery of natural gas reserves has intensified the existing conflicts between Turkey, Cyprus and Israel. In particular, gas exploration and development efforts aggravated the disagreements between Turkey and Cyprus regarding maritime borders and Exclusive Economic Zones (EEZs). The lack of consensus is on how the revenues generated by exports would be shared by the two communities emerged as another major barrier to peace. Lastly, natural gas discoveries altered the regional security environment by facilitating a rapprochement between Israel, Cyprus and Greece, which can potentially undermine regional stability.

Keywords: Energy, Natural Gas, Turkey, Israel, Cyprus, Eastern Mediterranean, Economic Interdependence.

Introduction

This article discusses the political implications of the recent hydrocarbon discoveries in Eastern Mediterranean. The main research question is as follows: can the prospect of energy wealth facilitate the resolution of various political conflicts in the region, particularly the
enduring conflict in Cyprus and the recent tensions between Turkey and Israel? Alternatively, do
distributional conflicts over natural resources amplify the existing political issues, resulting in a
more securitized environment? In short, is energy a force of cooperation or conflict in Eastern
Mediterranean?2

The extant literature offers some compelling reasons why energy resources can facilitate
political cooperation among states. Exploration, development and transport of oil and natural gas
require comprehensive coordination among multiple actors, which in turn generates a web of
economic interdependence among the suppliers, transit states and importers. Economic
interdependence, according to the liberal school of thought in international relations, facilitates
political cooperation by raising the costs of conflict. Based on the premise that states prioritize
absolute gains from trade,3 liberal theorists argue that interdependent states would rather avoid
the welfare losses to result from disruption of trade due to political disputes.4 Greater economic
interdependence thus incentivizes states to resolve or avoid political tensions with their trading
partners.

A corollary of the economic interdependence thesis that is particularly pertinent to energy
politics is the notion of “peace pipelines” which postulates that countries with existing political
conflicts can be incentivized to settle their differences peacefully if they are linked via oil and gas
pipelines. Particularly popular in the US policy circles, the peace pipelines thesis has been closely
associated with several conflict resolution attempts throughout the world. In the 1990s, the US
promoted peace pipelines as a mechanism to bring stability to the South Caucasus. The Baku-
Tbilisi-Ceyhan oil pipeline was discussed as a peace pipeline at the OSCE summit in Istanbul, in
November 1999.5 The proposed Iran-Pakistan-India pipeline has been widely touted as a peace

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2 Recent work on the topic include, Ayla Gürel and Laura Le Cornu, “Can Gas Catalyse Peace in the Eastern
(accessed 5 August 2014); Emre Iseri and Panagiotis Andrikopoulos, “Energy Geopolitics of the Eastern
Matthew J. Bryza, Eastern Mediterranean Natural Gas: Potential for Historic Breakthroughs among Israel, Turkey
and Cyprus, Turkish Policy Quarterly, Fall 2013, Vol 12, No. 3, p. 35-44.
3 Robert Powell, “Absolute and Relative Gains in International Relations Theory,” American Political Science
4 Mark J. Gasiorowski, “Economic Interdependence and International Conflict: Some Cross-National Evidence,”
5 Burcu Gultekin, “Prospects for Regional Cooperation on NATO’s South Eastern Border: Developing a Turkish-
Russian Cooperation in South Caucasus” Institut d’Etudes Politiques de Paris, June 2005,
pipeline.\textsuperscript{6} The notion of peace pipelines was also recently raised in the context of Eastern Mediterranean discoveries.\textsuperscript{7}

Realist students of international relations however consider economic interdependence a source of conflict rather than cooperation among states.\textsuperscript{8} According to realists, economic interdependence undermines states’ security in two ways. First, the unequal distribution of benefits from trade alters the balance of power by providing greater relative gains to less dependent parties at the expense of more dependent ones. Unlike the liberals that emphasize absolute gains, realists prioritize relative gains from trade, which can be converted into military capabilities.\textsuperscript{9} Second, economic interdependence via the exchange of vital goods like oil and natural gas potentially threatens the survival of dependent states as supply-cut offs would damage them economically and militarily.\textsuperscript{10} Similarly, realists consider the peace pipeline argument flawed. Critics hold that there is no evidence that countries that are linked to each other via their energy infrastructure are more prone to make or preserve peace.\textsuperscript{11}

Can the recent natural gas discoveries in the Eastern Mediterranean bring about the much-needed peace to the region by creating energy interdependence among states? Can energy be the panacea to finally bring the Cyprus issue to a peaceful conclusion? Can the prospect of mutual gains from energy partnership sufficiently incentivize Turkey and Israel to mend the relations that were critically strained after the \textit{Mavi Marmara} incident in 2010? This article finds little evidence that energy has so far served as a catalyst of cooperation in the region. On the


contrary, the discovery of natural gas reserves off the coasts of Cyprus and Israel has intensified existing conflicts. In particular, the gas exploration efforts in the Levant basin exacerbated the existing disputes between Turkey and Cyprus regarding maritime borders and Exclusive Economic Zones (EEZs). The issue of how the resources are to be shared by the two communities on the island still remains unresolved. Natural gas discoveries also reshaped regional security environment by facilitating a rapprochement between Israel, Cyprus and Greece. In addition to coordinating on energy projects, Israel, Cyprus and Greece are engaged in extensive security cooperation. This tripartite rapprochement could conceivably lead to new frictions with Turkey, whose aspirations to become an energy hub is potentially undermined by this emerging power bloc.

The article has two main sections and one brief concluding section. Section one reviews the gas discoveries and discusses the conditions of regional energy markets and feasibility of various export options. Section two discusses the impact of gas discoveries on the patterns of conflict and cooperation in the region. The concluding section briefly focuses on how energy has shaped the regional balances of power.

Gas Discoveries in Eastern Mediterranean: Markets and Export Options

Over the past five years, the energy landscape of the Eastern Mediterranean underwent tectonic shifts. In 2009, the US-based Noble Energy discovered gas in the offshore field Tamar, which has about 280 bcm (billion cubic meters) of recoverable gas, enough to meet Israel’s domestic demand for decades. The Leviathan field, discovered in 2010, is estimated to contain 532 bcm of gas, which makes it one of the largest deep-water discoveries in the last decade. In December 2011, another gas reserve was discovered in Block 12 off the coast of Cyprus, about 34 km west of Leviathan. The Aphrodite field was initially estimated at more than 200 bcm, which was later revised down to 140 bcm. Energy resources of the Eastern Mediterranean region are not vast in relative terms; they represent less than 1 percent of the world’s total proven

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reserves. The reserves are thus not large enough to be a “game-changer” in global markets, unless ongoing explorations in adjacent blocks produce additional discoveries in significant amounts. It should also be emphasized that the discoveries took place at a time of rising global energy supply, particularly from non-conventional reserves like shale gas and tight oil in the US. The likely effect of the Eastern Mediterranean gas on global markets is still very much uncertain.

Global energy markets may be problematic by regional demand is strong. Natural gas consumption in particular is rising fast in most Mediterranean countries. The share of natural gas in Israel’s primary energy consumption, for instance, rose from virtually 0 in 2004 to 36 percent today; it will likely rise to 70 percent by 2020. Until recently, Israel imported much of its gas from Egypt via the undersea pipeline between Al-Arish in Northern Sina and the gas import facility in Ashkelon. In the aftermath of the fall of the Mubarak regime, in May 2012 the Egyptian government cancelled the supply agreement with Israel, which was forced to generate much of its electricity from diesel fuel and the limited gas supplied from Mari-B offshore gas field and only recently from Tamar. Thus, the gas discovered in Leviathan is of critical importance for Israeli energy security.

Given its expanding domestic gas market, Turkey is another potential market for Eastern Mediterranean gas. Turkey’s natural gas consumption, which is currently about 46 bcm per year, is expected to reach 65 bcm in 2023. Turkey not only needs to meet its soaring energy demand but also seeks to alleviate its dependence on Russia, which provides about half of Turkey’s energy needs.

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18 EIA, Eastern Mediterranean Region.
20 Israel government sought to establish a balance between the country’s domestic needs and potential export prospects. After a lengthy public debate involving the government, the parliament and the supreme court, it was decided that up to 40 per cent of Israel’s gas reserves (900 bcm) could be set aside for exports. Gürel and Le Cornu, “Can Gas Catalyse Peace in the Eastern Mediterranean?”
natural gas imports, by diversifying its import sources and routes.\textsuperscript{21} Importing Eastern Mediterranean gas on competitive terms would help Turkey in its diversification efforts. It would also strengthen Ankara’s bargaining power with other suppliers.

In addition to the expanding energy markets in the immediate neighborhood, the most appetizing export destination for Eastern Mediterranean suppliers is Europe. The EU is seeking to diversify its energy imports in order to reduce its dependence on Russia, which has proved to be a source of major political and economic liability, as evidenced most recently in the Ukraine crisis.\textsuperscript{22} To that end, in addition to the planned southern energy corridor, the EU is actively promoting an Eastern Mediterranean energy route.\textsuperscript{23} The proximity of the Eastern Mediterranean reserves to the European markets is the biggest advantage of this region. The involvement of an EU member state, Cyprus, is also considered an asset favoring the EU’s plans to establish a fourth energy corridor to Europe.\textsuperscript{24}

One option to export Mediterranean gas would be an undersea pipeline through Cyprus to Turkey. The pipeline to Turkey option has been explored by Turkish and Israeli companies, which continue to claim that it is the most technically and commercially viable option due to shorter distances involved, although not everyone agrees with this assessment.\textsuperscript{25} This pipeline also has the advantage of supplying both the European and Turkish markets, giving a wider portfolio of customers to suppliers. The major alternative to the Turkey route would be to build an undersea pipeline to Cyprus and then via Crete to Greece. This option is technically challenging and potentially more expensive (estimated at 20 billion USD),\textsuperscript{26} given the longer distances involved. Nonetheless, official talks between Israel and Greece took place about the construction of an undersea pipeline to Greece. This option, if realized, would make Greece a


\textsuperscript{24} Shaffer, “Energy Resources and Markets in Eastern Mediterranean Region.”

\textsuperscript{25} Mankoff, Jeffrey, “Resource Rivalry in the Eastern Mediterranean: The View from Washington.”

\textsuperscript{26} Tagliapietra, “Towards a New Eastern Mediterranean Energy Corridor?,” p. 21.
transit country, which would in turn undermine Turkey’s claim to be primary energy transit corridor to Europe.\textsuperscript{27}

Another possibility to export gas from Eastern Mediterranean is Liquefied Natural Gas (LNG). The advantage of this option is that it relieves Israel and Cyprus of the necessity of relying on Turkey or any other transit country, as it would have been the case with an undersea pipeline. There is a proposal to build an LNG terminal at Vasilikos in Southern Cyprus to liquify and store gas from Cyprus and Israel to be transported to LNG receiving and regasification terminals in the Mediterranean. The LNG option is favored by the Greek Cypriot administration, primarily because it allows Cyprus greater autonomy and flexibility. However, there are serious questions regarding the feasibility of an LNG plant in Cyprus. The estimated 140 bcm of gas in Aphrodite field will not be enough to make this plant commercially viable, given the price tag estimated at no less than 10 billion USD. Financing this project would also be challenging, given the geopolitical and marketing risks involved. At minimum, supplying gas from Israel’s Leviathan would be necessary for making the LNG option to work.\textsuperscript{28} Even then, the uncertainty of global demand makes LNG exports a risky proposition. Asian markets, where the demand for LNG is supposed to be strongest, have a choice of suppliers, including Qatar, Australia and potentially the largest LNG exporter of all, the US. Given the relatively limited size of proven reserves in Leviathan and Aphrodite fields, it is unclear how competitive Israeli and Cypriot gas would be globally. Exporting to regional markets could be a safer bet for Israel and Cyprus, rather than competing for global markets with giant LNG exporters.

The Impact of Gas Discoveries on Existing Political Disputes

Energy played a critical role in Obama administration’s efforts since early 2013 to initiate a reconciliation process between Israel and Turkey. Hopes for reconciliation soared when Israeli Prime Minister Netanyahu, under pressure from the Obama administration, issued a formal apology in March 2013 for the \textit{Mavi Marmara} incident in 2010. After the apology, the diplomatic efforts on both sides accelerated, under the auspices of the US. By early 2014, both parties appeared keen on leaving the crisis behind and start working on an energy partnership. There also


\textsuperscript{28} Cyprus asked Israel to set aside 25 percent of Leviathan’s output for LNG export via Cyprus, which Israel has been hesitant to accept. Gürel and Le Cornu, “Can Gas Catalyse Peace in the Eastern Mediterranean?”

was considerable commercial interest in both Turkey and Israel in an Israel-Turkey gas pipeline.\(^{29}\) Israel’s military operations in Gaza in the summer of 2014, however, put a sudden end to the diplomatic efforts as well as the attempts to forge an energy partnership. Turkish Minister of Energy and Natural Resources Taner Yildiz declared that Turkey would not consider collaborating with Israel on a natural gas project as long as the Gaza problem remains unresolved.\(^{30}\) Energy incentives even though they were instrumental in initiating a diplomatic process, ultimately proved insufficient to overcome the political barriers to reconciliation between Turkey and Israel.

Energy could have proved instrumental in the Cyprus peace process but so far it has failed to produce a breakthrough. The reason why natural resources could be a force of cooperation has to do with the rising opportunity costs of conflict. The discovery of gas in the Aphrodite field and the prospect of additional discoveries in the adjoining blocks raised the opportunity costs of the current stalemate between the Turkish and Cypriot administrations, providing “dollars-and-cents reasons for easing the estrangement or bringing it to an end.”\(^{31}\) As long as the island’s divided status and isolation continues, neither side is able to fully exploit the natural resources of the island. The Greek Cypriots have an even more compelling urgent need to find a settlement than the Turkish Republic of Northern Cyprus (TRNC) given the continuing economic troubles.\(^{32}\) The revenue from gas sales, new unemployment and other potentially positive effects of gas exploration, production and export will be a major boost to Cypriot economy. TRNC also has a strong interest in ending its economic and political isolation and receiving its fair share from the energy wealth.

As in the case of Israel, in Cyprus energy played a role in jump-starting a diplomatic process between the quarreling parties. After the failure of the Annan Plan in 2004, relations between the Greek Cypriot administration and TRNC had entered into a period of stagnation. Brief negotiations between the two administrations took place after the Greek Cypriot


presidential elections in 2008 but the talks failed rather quickly. Attempts to continue negotiations in 2010 and 2011 produced no tangible outcomes. The discovery of gas offshore contributed significantly to jump-starting the talks in 2013. After the Greek Cypriot presidential elections in February 2013, the newly elected President Nicos Anastasiades reached an agreement with his Turkish counterpart Derviş Eroğlu and re-started the negotiation process by issuing a Joint Declaration. In addition to the UN, which mediated the talks, the US played a critical role in overcoming deadlocks earlier in the talks.

Behind the reanimated US interest in Cyprus problem is primarily the allure of energy. The US has been supporting the Eastern Mediterranean energy corridor as part of the strategy of promoting European energy security through diversification. The export of the Eastern Mediterranean gas to Europe will serve the US interests by allowing the EU to reduce its dependence on Russian natural gas, which proved to be political liability for the US as well as for the EU. US Vice President Biden in particular took a special interest in Cyprus gas. During a visit to Nicosia on May 12, 2014 Biden said “Cyprus is poised to become a key player…transforming the Eastern Mediterranean into a new global hub for gas” and pledged US government support for efforts to reunify the island.\(^{33}\)

Despite the expectations that energy would incentivize all relevant parties to make progress towards a settlement, natural gas discoveries actually intensified the conflict. In fact, on October 7 2014, the Greek Cypriot administration unilaterally suspended reunification talks citing Turkey’s plans to search for oil and gas in waters where the Cypriot government already licensed foreign companies for exploration. Turkey had indeed sent a research vessel to Cyprus’s south coast where Cyprus-licensed research consortium by Italy’s ENI and South Korea’s Korgas had been drilling. Turkey also reportedly dispatched two warships to accompany its research vessel and keep an eye on the consortium’s drilling platform. Greek Cypriot administration called Turkey’s actions “provocative” and “aggressive” acts that violated Cyprus’ sovereign rights.\(^{34}\)

The next meeting scheduled to take place between Anastasiades and Eroğlu under the auspices of the UN was called off. At the time of the writing of this article, it was unclear when the talks would resume.


The suspension of reunification talks is only the latest episode in the ongoing dispute between the Greek Cypriot administration and TRNC/Turkey regarding the demarcation of maritime borders and EEZs. As early as 2002 when Cyprus began its initial preparation for gas exploration, tensions began to rise. In 2003, Cyprus signed an agreement with Egypt on the delimitation of maritime jurisdiction areas. In 2004, Cyprus passed a new law unilaterally defining its EEZ. This law actually preempted the Annan plan, which was being debated at the time. In January 2007, Nicosia signed another EEZ agreement, this time with Egypt. Shortly after, in February 2007, Cyprus passed a law that defined the 13 exploration areas in accordance with the agreements it signed with Lebanon and Egypt. TRNC and Turkey strongly protested, arguing that the delineation of the maritime borders and the EEZs in an enclosed sea like the Mediterranean should be achieved through arrangements among all concerned parties, rather than bilateral treaties and national laws. Turkey tried to stop the agreement between Egypt and Cyprus, but these efforts failed. Turkey issued a letter to UN Secretary General Ban Ki Moon in April 2007, vowing to defend its sovereign rights in the Eastern Mediterranean as well as those of the TRNC.

In December 2010, Israel and Cyprus signed a maritime border agreement to delimit their respective EEZs. In response, Ankara signed a maritime delimitation agreement with TRNC in September 2011 (same time when Noble Energy started drilling in Block 12). TRNC issued license to TPAO for seven offshore blocks and one onshore block. Two of these blocks partly overlap with Cyprus exploration area in the island’s southeast. Even before the major discoveries in Leviathan and Aphrodite, the process of exploration for gas had a negative effect on the long-standing maritime border disputes.

Once it was clear that Cyprus had gas, the next key problem was to devise a mechanism whereby both communities could share fairly the revenues to be generated by gas exports. The revenue sharing dispute is part of the sovereignty problem in Cyprus. Being in charge of the internationally recognized Republic of Cyprus, the Greek Cypriots claim that they have the sole sovereign right to explore for and develop the natural resources of the island. The Greek side

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does not directly dispute that the island’s natural resources belong to both communities but insists that revenues will be shared with the Turkish Cypriots only within the federal framework of a unified Cyprus. In contrast, Turkey and TRNC object that the Greek Cypriots alone cannot represent the island, which they claim is against the 1960 Cyprus Accords and Constitution.\(^3^9\) Turkey and the TRNC hold that the Greek Cypriots should not exploit resources before reaching a comprehensive settlement on the island. Greek Cypriots insist that the right to harvest natural resources is not conditional on a solution of the Cyprus question.

In sum, contrary to the argument that the expected absolute gains from energy cooperation would help the parties to move towards peaceful solution to their long-standing disputes, the evidence so far indicates that the distributional conflicts have added new fuel to the existing tensions over EEZs, revenue sharing and sovereignty in Cyprus.

**Conclusion: Geopolitical Implications of Gas Discoveries**

Mirroring the shifts in the energy politics of Eastern Mediterranean, there have also been significant changes in regional alliances; the most important of which is the tripartite rapprochement between Israel, Cyprus and Greece.\(^4^0\) Energy is not the only factor that brought together Israel, Cyprus and Greece; these three countries all have unresolved issues with Turkey and are thus in need for regional allies.\(^4^1\) Israel in particular, a close military partner of Turkey prior to 2010, welcomed the opportunity to make a friend out of Cyprus, which would partially fill the vacuum left by Turkey.\(^4^2\) The initial sign of the Israel-Cyprus rapprochement was the 2010 EEZ delimitation agreement between the two in the wake of the Leviathan and Aphrodite discoveries. Since then Israel and Cyprus are coordinating closely on a number of energy projects including the previously discussed pipeline via Cyprus to Greece and the LNG terminal in Vasilikos. In 2013, Israel, Cyprus and Greece signed a tripartite memorandum of understanding on energy cooperation, including the construction of undersea cable interconnector, which will transport electricity generated by natural gas.\(^4^3\)

The emerging alliance between Israel, Cyprus and Greece also has a noticeable security dimension. The US and Israel along with Greece are now conducting joint air and naval

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41 Leigh, “Energy – A Geopolitical Game Changer?”
43 Leigh, “Energy – A Geopolitical Game Changer?”
exercises, some of which simulate defending seaborne gas installations in Eastern Mediterranean, like the “Operation Noble Dina.” Similar exercises the US had conducted with Turkey and Israel (“Reliant Mermaid”) were cancelled when Turkey-Israel relations fell apart in 2010. Since then Israel has pursued more military ties with Greece and Cyprus.

The alignment between Israel, Cyprus and Greece, particularly if it proves durable, constitutes a major shift in regional balance of power. First, a tripartite alliance between Israel, Cyprus and Greece would challenge Turkey’s claim to regional leadership, which had already been tarnished since Arab Spring. Second, Turkey’s aspiration to become regional energy hub is adversely affected by the rise of Israel, Cyprus and Greece as critical energy players. As suppliers, Israel and Cyprus are well-positioned to take on a more central role in emerging regional gas markets. Greece, in turn, could potentially be a transit country for Israeli and Cypriot gas to reach Europe.

Second, the tripartite coalition of Israel, Cyprus and Greece has Russia’s backing. Russia has multiple interests in Eastern Mediterranean. First, Russia wants to maintain its monopoly position as the gas supplier to Europe. Thus Kremlin and Gazprom have been seeking a foothold in the Cypriot and Israeli gas. To that end, Russia has backed Greek Cypriots’ rights to develop gas fields. Gazprom has also aggressively acquired stakes in Eastern Mediterranean energy infrastructure. Second, Russia has financial ties to Cyprus. Cyprus is a major source of FDI in Russia, because of Russian capital invested in Cyprus to evade tax provisions at home. Third, Cyprus is of increasing strategic value for Russia. Russia currently has a naval base in Tartus, Syria but the civil war in Syria makes access to the base problematic. Good relations with Cyprus and Israel gives Russia strategic alternatives in the region. Furthermore, Cyprus and Israel both welcome Kremlin’s support. Cyprus labeled Moscow “a shield against any threats by Turkey.”

Israel, too, despite the US’ objections, appears to be content with the partnership with Russia.

To conclude, the recent gas discoveries in Eastern Mediterranean have the potential to alter the patterns of political cooperation in the region. The prospect of energy wealth can in principle incentivize all relevant parties to work towards the resolution of the Cyprus problem. Similarly, energy could be the olive branch that will re-unite Turkey and Israel. However,

44 The 2012 Noble Dina Exercise reportedly involved operations against an unnamed navy (with capabilities similar to Turkish navy) and focused on the protection of offshore drilling facilities (similar to the ones that may be constructed off the Israeli coast) Mankoff, “Resource Rivalry in the Eastern Mediterranean: The View from Washington,” p. 4.
evidence so far indicates that energy had the opposite effect on political cooperation. It exacerbated rather than soothed existing political disputes such as the delimitation of maritime borders and EEZs, and ignited new disputes such as the revenue-sharing problem in Cyprus. The expected mutual gains from energy partnership proved insufficient for Turkey and Israel to overcome their political difficulties. Lastly, the escalating energy rivalry shifted the region’s geopolitical parameters by facilitating a rapprochement among Israel, Cyprus and Greece. With the backing of Russia, which is keen on reasserting its influence in the Eastern Mediterranean, the alliance between Israel, Cyprus and Greece can have a significant effect on regional balance of power.