

# The East Mediterranean Gas Forum: Regional Cooperation Amid Conflicting Interests

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## Key messages

- The East Mediterranean Gas Forum (EMGF) was announced in 2019 in Cairo. In 2020, it transformed into an international intergovernmental organization based in Cairo that includes Cyprus, Egypt, Greece, Israel, Italy, Jordan and Palestine.
- A series of offshore gas discoveries over the past decade—and the potential for more discoveries to come—have brought attention to the Eastern Mediterranean, despite complicated prospects for monetization.
- Much of the Eastern Mediterranean gas reserves, particularly those off of the Israeli and Cypriot coasts, were discovered in deep waters and are complex and expensive to develop. Insufficient infrastructure, limited local markets and geopolitical tensions add to these challenges.
- The establishment of the EMGF responds to the need for a regionally coordinated effort to unlock the full potential of Eastern Mediterranean offshore gas wealth. Forum members aim to involve the private sector and financial institutions to improve the prospects for profitable exploitation of the gas reserves.
- For a chance to improve the competitiveness of these offshore resources, a collaborative regional approach is needed, geared toward capitalizing on existing infrastructure, creating synergies to bring upstream costs down, and reviewing certain aspects of the regulatory frameworks to help make exports viable. The EMGF offers a platform to coordinate such efforts.
- Local and regional markets represent the most technically logical destination for offshore Eastern Mediterranean gas resources. But regional tensions stand in the way.
- The establishment of the EMGF has a geopolitical dimension fueled in particular by poor or troubled relations between Turkey and its neighbors. While sizable reserves have been developed so far, despite various conflicts in the region, this climate raises a range of risks and complicates prospects for monetization, which could deter investments and affect future exploration activity.

# Introduction

Over a decade after the first major gas discoveries in the Levant Basin, and a year after a first meeting in Cairo on 14 January 2019, representatives of Cyprus, Egypt, Greece, Israel, Italy, Jordan and the Palestinian Authority met for a third time in Cairo on 16 January 2020 to finalize the framework for launching the East Mediterranean Gas Forum (EMGF) as an international intergovernmental organization based in Cairo. In addition to representatives from the seven founding members, the January 2020 ministerial meeting was attended by representatives from the European Union (EU) and the World Bank, as well as representatives from France and the United States who requested to join the forum, respectively as a member and as a permanent observer.

The discovery of sizable natural gas reserves off the coasts of Cyprus, Egypt and Israel over the past decade, and the potential for more discoveries to come, has turned the spotlight on the Eastern Mediterranean, a geographic space that is being increasingly referred to as such, a subregion with its own set of players, stakes and rivalries.

In 2010, the United States Geological Survey estimated that the Levant basin and Nile Delta basin could hold a mean of 122 and 223 trillion cubic feet of recoverable gas respectively.<sup>1,2</sup> On paper, the combined estimates have the potential to turn the Eastern Mediterranean into an energy hot spot. In reality, and while sizable reserves have been developed, the past decade has also revealed considerable challenges in exploiting part of this newly found resource wealth.

These challenges are multidimensional. Much of these reserves, particularly those off the Israeli and Cypriot coasts, were discovered in deep waters and are complex and expensive to extract. Insufficient infrastructure, limited local markets and geopolitical tensions add to these challenges. At times, the management of the sector at a national level may have also contributed to further complicating the monetization process.

Future exploration activity – since much of the region’s resources have yet to be discovered – depends on enhancing monetization capabilities. EMGF’s establishment responds to the need for a regionally coordinated effort to unlock the full potential of the Eastern Mediterranean offshore gas wealth.

The paper starts by providing a quick overview of the EMGF, its objectives and internal working mechanisms, and its first efforts to assess– with the aim of improving– prospects for monetization. It then explores the geopolitical dynamics with a focus on mapping perceptions of threats emanating from various regional actors, as these dynamics have played a role in the establishment and membership of the Forum. In the third and last part, the paper focuses on bringing offshore Eastern Mediterranean gas to market.

- 1 C.J. Schenk, M.A. Kirschbaum, R.R. Charpentier, T.R. Klett, M.E. Brownfield, J.K. Pitman, T.A. Cook and M.E. Tennyson, “Assessment of undiscovered oil and gas resources of the Levant Basin Province, Eastern Mediterranean” U.S. Geological Survey Fact Sheet 2010-3014, 2010. [www.pubs.usgs.gov/fs/2010/3014/pdf/FS10-3014.pdf](http://www.pubs.usgs.gov/fs/2010/3014/pdf/FS10-3014.pdf)
- 2 C.J. Schenk, M.A. Kirschbaum, R.R. Charpentier, T.R. Klett, M.E. Brownfield, J.K. Pitman, T.A. Cook and M.E. Tennyson, “Assessment of undiscovered oil and gas resources of the Nile Delta Basin Province, Eastern Mediterranean”, U.S. Geological Survey Fact Sheet 2010-3027, 2010. [www.pubs.usgs.gov/fs/2010/3027/pdf/FS10-3027.pdf](http://www.pubs.usgs.gov/fs/2010/3027/pdf/FS10-3027.pdf)

# I. Overview of the EMGF

According to the Cairo Declaration released on 14 January 2019 at the end of the first ministerial meeting, the EMGF will serve as a platform “to foster cooperation and initiate a structured and systematic policy dialogue on natural gas, potentially leading to the development of a sustainable regional gas market.”<sup>3</sup> Its main objectives include:

- a. Assist the creation of a regional gas market that benefits the members through security of supply and demand, optimized resource development and infrastructure cost, competitive pricing, and improved commercial relationships;
- b. Ensure security of supply and demand for the Members, optimize resource development, utilize efficiently existing and new infrastructure, ensure competitive pricing, and promote improved commercial relationships;
- c. Foster cooperation, by creating a structured and systematic dialogue on natural gas, including regional natural gas policies;
- d. Promote, on the basis of international law, a higher understanding of the interdependency and the potential benefits of cooperation through dialogue among its Members;
- e. Support producing countries, and countries with gas reserves in the region, in their efforts to monetize their existing and future reserves, through fostering cooperation among them, and with the transit and consuming countries in the region; utilizing the existing infrastructure and developing more infrastructure options to accommodate the existing and future discoveries.
- f. Help consumer countries in their endeavors to secure their needs, and together with the transit countries formulate the gas policies in the region, thereby enabling sustainable partnership among key players across the gas value chain.
- g. Ensure the environmental sustainability of gas exploration, production, transportation and infrastructure building, and promote gas integration with other energy resources, notably renewables, and in the power grid.

The forum’s *raison d’être* is to provide a platform for dialogue and to facilitate coordination primarily among the countries of the region, and between them and various stakeholders, including companies operating in the Eastern Mediterranean, financial institutions and potential customers and investors.

The EMGF established various bodies and committees, which meet throughout the year to advance and support the Forum’s mission. These include:

- A ministerial committee composed of the ministers in charge of energy affairs in each of the Forum’s member states. It is the highest-level body within the EMGF, tasked with defining the organization’s policies. The ministerial committee has met on three occasions in Cairo in January 2019, July 2019 and January 2020. In a virtual ceremony in September 2020, the members signed a foundation charter establishing the EMGF as an international organization.
- A high-level working group composed of representatives from each of the Forum’s member states was tasked with executing the activities of the Forum and ensuring technical consultations among the members throughout the year. It met for the sixth time in May 2020.
- The Gas Industry Advisory Group (GIAG, sometimes also referred to as the Gas Industry Advisory Committee, GIAC) is an expert group providing consulting services to the Forum that brings together regulatory authorities and state-owned

3 Cairo Declaration establishing the East Mediterranean Gas Forum, Cairo, 14 January 2019. [www.pio.gov.cy/en/press-releases-article.html?id=5590#flat](http://www.pio.gov.cy/en/press-releases-article.html?id=5590#flat)

companies from member states, private sector companies and international financial institutions. The GIAG held its third meeting in May 2020.

- In addition, there are technical, economic and organizational subcommittees placed under the GIAG. These subcommittees develop their own work plans in accordance with the GIAG's guidelines and contribute to its overall working program.

Ultimately, the purpose of the EMGF is to facilitate the exploitation of the Eastern Mediterranean's natural gas reserves by leveraging existing infrastructure, and to encourage future exploration activity—since much of the region's resources remain undiscovered—by involving the private sector and financial institutions in an effort to enhance monetization capabilities. Indeed, improving prospects for monetization is key for attracting investors and encouraging future exploration activity. This is a main area where the EMGF can bring added value.

A key item on the agenda of the third ministerial meeting held in Cairo in January 2020 was the presentation of a World Bank-funded “EMGF Strategic Roadmap towards a Master Concept for a Phased Gas Infrastructure Corridor.” The study focuses on the seven EMGF member states and examines current and projected gas demand/supply and assesses monetization options and potential transportation and processing infrastructure under various supply and demand scenarios.<sup>4</sup>

According to the study, current natural gas demand in the seven member states is likely to exceed 13 billion cubic feet (Bcf) per day in 2020, even taking into account coronavirus pandemic impacts. Demand is projected to grow substantially out to 2030 and, despite the potential adoption of energy efficiency measures and a higher penetration of renewables, it is still anticipated to continue its growth out to 2040 to land in the range of 17 to 20 Bcf per day.<sup>5</sup>

On the supply side, public domain data illustrates that the seven EMGF members currently produce in the range of 8 to 10 Bcf per day depending on availability of key facilities. Supplies are projected to peak at 13.4 Bcf per day in 2028, likely below current demand levels. The region needs a substantial Zohr-like discovery and development every two to three years to satisfy its natural gas demand.<sup>6</sup>

Theoretically then, there is a sufficient market within the seven EMGF member states to absorb the region's gas production, provided that there are commercially viable and geopolitically feasible export options to reach customers. The scope of this study is limited to the seven EMGF member states, some of which are technically hard to reach, and ignores nearby markets that may be within reach but remain to this day politically inaccessible. (See part III.)

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4 The study was prepared by GaffneyCline, a global consultancy founded in 1962, which specializes in the oil and gas industry.

5 Ryan Pereira, interview with author, 7 July 2020. Pereira is Global Director – Gas & LNG at GaffneyCline.

6 *Ibid.*

## II. Geopolitical dimensions

The discovery of offshore gas resources in the Eastern Mediterranean added a new layer of complexity to a region already marred with decades-old conflicts. Gradually, it provoked a reconfiguration of alignments and set off new intra-regional dynamics in the Eastern Mediterranean. The EMGF reflects these new regional dynamics.

From the onset, the absence of three Eastern Mediterranean countries from the EMGF—Lebanon, Syria and Turkey—is evident. If Syria’s international engagement was reduced to a minimum as a result of the ongoing conflict, Lebanon was indeed invited to join the EMGF on more than one occasion. The Lebanese government refused, pointing out that Israel’s presence prevents it from joining the Forum, although Lebanon and Israel share membership in other regional intergovernmental organizations such as the Union for the Mediterranean. However, the EMGF founding members appear to have deliberately excluded Turkey, although the EMGF keeps the door open for other countries to join at a later stage after completing membership procedures.

The Forum’s establishment therefore has an undeniable geopolitical dimension fueled in particular by poor or troubled relations between Turkey and its neighbors, Cyprus, Egypt, Greece and Israel.

From their perspective, each of these countries has found itself at the receiving end of a more assertive Turkish foreign policy over the past decade, which has prompted a realignment in the region to balance against perceived Turkish threats.

Laying out how each of these actors perceive threats to their interests is the first step towards understanding their behavior.

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### CYPRIT PERSPECTIVE

Beyond the critical Cyprus dispute, offshore exploration in the Cypriot Exclusive Economic Zone (EEZ) presents another major point of contention between Nicosia and Ankara. Between 2003 and 2010, Turkey has denounced all the maritime border agreements signed by Cyprus with its neighbors, Egypt, Lebanon and Israel, and lobbied these countries to reject them on the grounds that: (1) the current Republic of Cyprus is not competent to represent Cyprus as a whole, and thus cannot sign international agreements on its behalf; and that (2) islands’ capacity to generate maritime zones should be limited compared to continental land masses. Turkey therefore claims that certain parts of the Cypriot EEZ fall within its continental shelf and others under the jurisdiction of the Turkish Republic of Northern Cyprus (TRNC).

This explains why Ankara rejects exploratory activity in the Cypriot EEZ. Since 2008, it has made a point to monitor, and sometimes harass, surveyors and drillships conducting operations in Cypriot waters. On at least two occasions, it went as far as blocking their work: in 2008, the Turkish navy forced two surveyors to retreat within the territorial waters of the island<sup>7</sup>, and most notably in 2018 it prevented a drillship leased by ENI from reaching its drilling target in Block 3, which led the Italian company to abandon its program.<sup>8</sup>

7 Reuters, “Cyprus complain Turks harass ships exploring for oil”, 24 November 2008. [www.reuters.com/article/cyprus-exploration-protest-idUKL070174320081124](http://www.reuters.com/article/cyprus-exploration-protest-idUKL070174320081124)

8 M. Kambas, “Standoff in high seas as Cyprus says Turkey blocks gas drill ship”, Reuters, 11 February 2018. [www.reuters.com/article/us-cyprus-natgas-turkey-ship-idUSKBN1FV0X5](http://www.reuters.com/article/us-cyprus-natgas-turkey-ship-idUSKBN1FV0X5)

Turkey escalated its activities further in 2019 by ramping up drilling operations around Cyprus, in areas it claims as either falling within its continental shelf or under the jurisdiction of the TRNC.<sup>9</sup>

## EGYPTIAN PERSPECTIVE

In 2013, the ousting of President Mohammad Morsi, a year after the leader of the Muslim Brotherhood was elected in a democratic poll, severely strained relations between Cairo and Ankara, as the Muslim Brotherhood is considered ideologically close to the Justice and Development Party founded by Recep Tayyip Erdoğan. By arguing that the current Egyptian regime was established after a military coup against the democratically elected Morsi, Erdoğan in effect denied its legitimacy. In August 2013, Turkey called on the UN Security Council to impose sanctions on Egypt and continues to criticize the current Egyptian leadership while expressing support for the Muslim Brotherhood and calling for the release of all political prisoners in Egypt. Cairo views such interference in internal affairs as extremely provocative.

More recently, Turkey's intervention in Libya is perceived as a "major threat" by Cairo, as it threatens to destabilize Egypt's security.<sup>10</sup> Ankara's advances in the neighboring country prompted Egyptian President Abdel Fattah Al-Sisi to declare the Libyan cities of Sirte and Jufra a "red line" in a speech on 20 June 2020, threatening a direct intervention in Libya should it be transgressed.<sup>11</sup>

## GREEK PERSPECTIVE

Turkey's relationship with Greece is similarly tense, with frequent confrontations in the Aegean, repeated violations of Greek airspace, renewed claims to Greek isles and more.<sup>12</sup> In his first visit to Greece as Turkish President in 2017, Erdoğan claimed that the Treaty of Lausanne, which, among others, defined the borders of the modern Turkish Republic with Greece, must be reconsidered—in effect calling to redraw the borders—and raised concerns about the Turkish minority in Greece.<sup>13</sup>

Turkey also objects Greece's rights to exploit energy resources in certain parts of its waters that are far from the Greek mainland. On 27 November 2019, President Erdoğan and the head of the Tripoli-based, UN-backed government in Libya Fayeza al-Serraj signed a memorandum of understanding (MoU) on the "delimitation of maritime jurisdictions."<sup>14</sup> The deal ignores the presence of Greek islands, including Crete, Karpathos and Rhodes, along the corridor between Libyan and Turkish coasts. This reflects Ankara's longstanding position that islands' capacity to generate maritime zones should be limited compared to states with longer coastal fronts.<sup>15</sup>

9 P. Stevenson, "Turkey Ups Cyprus Ante By Drilling South Of The Island", *Middle East Economic Survey*, 11 October 2019. [www.mees.com/2019/10/11/geopolitical-risk/turkey-ups-cyprus-ante-by-drilling-south-of-the-island/efc59190-ec40-11e9-860d-5b142cfc7484](http://www.mees.com/2019/10/11/geopolitical-risk/turkey-ups-cyprus-ante-by-drilling-south-of-the-island/efc59190-ec40-11e9-860d-5b142cfc7484)

10 A. Al-Rashed, "Libya and the Egyptian-Turkish Confrontation", *Asharq Al-Awsat*, 23 January 2020. [english.aawsat.com/home/article/2095701/abdulrahman-al-rashed/libya-and-egyptian-turkish-confrontation](http://english.aawsat.com/home/article/2095701/abdulrahman-al-rashed/libya-and-egyptian-turkish-confrontation)

11 S. Magdy and A. Wilks, "Egyptian president says Libyan city Sirte a 'red line'", *Associated Press*, 20 June 2020. [on: apnews.com/article/849b1049742450459e04b4806f52a072](https://apnews.com/article/849b1049742450459e04b4806f52a072)

12 E. Papastavridis, "The Greek-Turkish Maritime Disputes: An International Law Perspective", *Hellenic Foundation for European & Foreign Policy (ELIAMEP)*, Policy Paper #36, July 2020. [www.eliamep.gr/wp-content/uploads/2020/07/Policy-paper-36-Papastavridis-final-10.07.pdf](http://www.eliamep.gr/wp-content/uploads/2020/07/Policy-paper-36-Papastavridis-final-10.07.pdf)

13 BBC, "Turkey's Erdogan calls for border treaty review in Greece visit", 7 December 2017. [www.bbc.com/news/world-europe-42265260](http://www.bbc.com/news/world-europe-42265260)

14 D. Butler and T. Gumrukcu, "Turkey signs maritime boundaries deal with Libya amid exploration row", *Reuters*, 28 November 2019. [www.reuters.com/article/us-turkey-libya-idUSKBN1Y213I](http://www.reuters.com/article/us-turkey-libya-idUSKBN1Y213I)

15 Ç. Erciyas, "Outstanding Issues in the Eastern Mediterranean and the Aegean Sea - Turkey's Views and Policies", *Republic of Turkey – Ministry of Foreign Affairs*, 13 February 2020. [www.mfa.gov.tr/site\\_media/html/Outstanding-Issues-in-the-Eastern-Mediterranean-and-the-Aegean-Sea-Turkey-s-Views-and-Policies.pdf](http://www.mfa.gov.tr/site_media/html/Outstanding-Issues-in-the-Eastern-Mediterranean-and-the-Aegean-Sea-Turkey-s-Views-and-Policies.pdf)

Ankara went further and, on 30 May 2020, the Turkish government's gazette published a map showing offshore blocks sought by the Turkish Petroleum Corporation (TPAO) for exploration purposes.<sup>16</sup> According to a statement released by the Greek Foreign Minister Nikos Dendias on the first of June 2020, the map ignores the presence of Greek islands and their effect on maritime zones and encroaches on Greece's continental shelf. The statement stresses that Greece is "fully prepared to respond to this provocation as well, should Turkey decide in the end to go through with it."<sup>17</sup>

## ISRAELI PERSPECTIVE

The once-strategic relationship between Israel and Turkey has gradually deteriorated over time, particularly after Israel launched operation Cast Lead against Hamas in Gaza in 2008-2009, and the Mavi Marmara incident in 2010. Relations between the two countries never fully recovered, even after the US-brokered Israeli apology to Turkey in 2013 and the normalization of relations in 2016 (partly motivated by energy cooperation).<sup>18</sup>

The situation deteriorated again two years later. In May 2018, the Israeli army used live fire and killed over 50 Palestinians in Gaza protesting the US decision to move the American embassy to Jerusalem. Erdoğan accused Israel of carrying out a genocide and expelled the Israeli ambassador from Turkey and withdrew the Turkish ambassador from Tel Aviv. He later accused Israel of apartheid. This series of statements and actions were viewed as deeply hostile by Israel.<sup>19</sup>

Soured relations with Turkey led to Israel's deeper engagement with both Cyprus and Greece over the past decade on multiple levels.<sup>20</sup> However, so far Israel appears to refrain from going the extra mile that would completely undermine its relations with Ankara.

## TURKISH PERSPECTIVE

From its own perspective, Turkey also perceives that its core strategic interests in the region are threatened by its neighbors and is further alarmed by increased coordination among them.

Chief among Ankara's concerns is being *de facto* locked in maritime boundaries it has always fought and rejected.<sup>21</sup> At issue is the effect of islands on maritime boundary delimitations. The UN Convention on the Law of the Sea grants islands that are not mere "rocks which cannot sustain human habitation or economic life of their own" the right to generate maritime zones, although they are not always accorded full effect. Depending on the interpretation, this could greatly limit Turkey's influence in

16 V. Nedos, "Turkey planning hydrocarbon exploration near Greek islands", *EKathimerini*, 1 June 2020. [www.ekathimerini.com/253258/article/ekathimerini/news/turkey-planning-hydrocarbon-exploration-near-greek-islands](http://www.ekathimerini.com/253258/article/ekathimerini/news/turkey-planning-hydrocarbon-exploration-near-greek-islands)

17 Hellenic Republic, Ministry of Foreign Affairs, "Statement by the Minister of Foreign Affairs, Nikos Dendias, on the publication in Turkey's Government Gazette of applications submitted to the Turkish government for granting of exploration and exploitation permits to the Turkish Petroleum Corporation", 1 June 2020. [www.mfa.gr/en/current-affairs/top-story/statement-by-the-minister-of-foreign-affairs-nikos-dendias-on-the-publication-in-turkeys-government-gazette-of-applications-submitted-to-the-turkish-government-for-granting-of-exploration-and-exploitation-permits-to-the-turkish-petroleum-corporation.html](http://www.mfa.gr/en/current-affairs/top-story/statement-by-the-minister-of-foreign-affairs-nikos-dendias-on-the-publication-in-turkeys-government-gazette-of-applications-submitted-to-the-turkish-government-for-granting-of-exploration-and-exploitation-permits-to-the-turkish-petroleum-corporation.html)

18 For more on Israeli-Turkish relations see: S. Efron, "The Future of Israeli-Turkish Relations", Rand Corporation, 2018. [www.rand.org/content/dam/rand/pubs/research\\_reports/RR2400/RR2445/RAND\\_RR2445.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR2400/RR2445/RAND_RR2445.pdf)

19 T. Karadeniz and T. Gumrukcu, "Turkey and Israel expel envoys over Gaza violence", Reuters, 15 May 2018. [www.reuters.com/article/us-israel-usa-embassy-turkey-idUSKCN1G1ZK](http://www.reuters.com/article/us-israel-usa-embassy-turkey-idUSKCN1G1ZK)

20 Efron, p. 34

21 Erciyès.

certain areas off its coastline<sup>22</sup>. Therefore, Turkey is strongly determined to respond to what it calls the “maximalist claims” of its neighbors in the Eastern Mediterranean and to a series of *faits accomplis* over the past decade that would ultimately affect its maritime influence in the zone if left unanswered. Given the sensitivity of the issue for Ankara, it might have been a miscalculation to assume Turkey would act with any less determination on this front than it has.

Beyond this vital issue for Turkey, Ankara has strategic interests in Cyprus and claims a historical responsibility to protect the Turkish Cypriot community in the island.<sup>23</sup> Therefore it maintains that Greek and Turkish Cypriots jointly own the island’s resources. It also objects to exploratory activities unilaterally undertaken off Cyprus’ coasts by what it calls the “Greek Cypriot Administration,” which, according to Ankara, is not competent to represent Cyprus as a whole.<sup>24</sup>

And, finally, Turkey does not want to be sidelined from future energy developments in the Eastern Mediterranean. In the first half of the 2010s, Turkey, with its vast market and strategic location, was seen as the most logical route on paper to export newly-discovered gas resources in the Eastern Mediterranean, in particular Israeli gas. Strained relations with Israel and the ongoing dispute with Cyprus, in whose EEZ any pipeline transporting Israeli gas to Turkey has to pass, de facto put on hold any project to export Israeli gas to and via Turkey, before we got to properly examining the feasibility of the option.

Turkey has demonstrated an unwavering resolve to uphold its interests. Ankara has responded to *faits accomplis* by imposing *faits accomplis* of its own. It has conducted reconnaissance and exploratory activities off Cypriot coasts. It has demonstrated its capacity for causing nuisance by thwarting ENI’s drilling program in Block 3 in 2018, thus raising the risks for any future drilling activity in the Cypriot EEZ, and by signing an MoU on the “delimitation of maritime jurisdictions” with Libya crafting a corridor through the Eastern Mediterranean and adding further complications to a project that was already riddled with challenges, the EastMed pipeline project.<sup>25,26</sup>

Regardless of the legality of these Turkish measures, Ankara has, *de facto*, imposed itself as an actor to reckon with in natural gas related developments in the Eastern Mediterranean. Despite wide opposition to a series of Turkish actions in the Eastern Mediterranean, Turkey is still perceived in Europe and in the United States as a necessary partner. This explains why, despite condemnation, actual counter measures taken by the EU or the U.S. were not of a nature to deter Ankara.<sup>27</sup>

This perceived leverage has given Turkey a comfortable margin of maneuver to establish *faits accomplis* with the objective of strengthening its hand in any future talks when the time for dialogue comes. Turkey is acting as a spoiler precisely to impose itself as a player that cannot be sidelined from the region’s energy developments.<sup>28</sup> Its ultimate objective is not to thwart, but to join, the region’s

22 UN General Assembly, “The United Nations Convention on the Law of the Sea”, Part VIII, Article 121. [www.un.org/Depts/los/convention\\_agreements/texts/unclos/part8.htm](http://www.un.org/Depts/los/convention_agreements/texts/unclos/part8.htm)

23 R. Bryant and M. Hatay, “Turkish Perceptions of Cyprus 1948 to the Present”, PRIO Cyprus Centre, PCC Report 1/2015. [library.fes.de/pdf-files/bueros/zypern/13468.pdf](http://library.fes.de/pdf-files/bueros/zypern/13468.pdf)

24 Republic of Turkey, Ministry of Foreign Affairs, “Greek Cypriot’s Unilateral Activities in The Eastern Mediterranean”, Foreign Policy, Main Issues. [www.mfa.gov.tr/greek-cypriot\\_s-unilateral-activities-in-the-eastern-mediterranean.en.mfa](http://www.mfa.gov.tr/greek-cypriot_s-unilateral-activities-in-the-eastern-mediterranean.en.mfa)

25 Kambas.

26 Butler, Gumrukcu

27 Havva Kara Aydin, “Turkey slams EU sanctions over E. Mediterranean drilling”, Anadolu Agency, 28 February 2020. [www.aa.com.tr/en/turkey/turkey-slams-eu-sanctions-over-emediterranean-drilling/1748463](http://www.aa.com.tr/en/turkey/turkey-slams-eu-sanctions-over-emediterranean-drilling/1748463)

28 Abderahman Salah, interview with author, 12 June 2020. Ambassador Salah is the former Ambassador of the Arab Republic of Egypt to Turkey (2010-2013). He gave his insights for this paper in his personal capacity. His views do not necessarily represent the Egyptian government’s policy.



energy developments—as it believes it is best placed to act as a conduit for Eastern Mediterranean offshore resources—but with rules it finds comfortable.<sup>29</sup>

In the meantime, the various actors appear to be on a quest to optimize their positions in eventual negotiations, when the time for dialogue comes. After the August 2020 naval show of force, the way forward requires a bold diplomatic effort.

These and other disputes and conflicts in the region—the conflict in Syria and a permanent state of tension on the Lebanese Israeli border—present additional challenges to monetizing the region’s offshore gas resources.

29 Republic of Turkey, Ministry of Foreign Affairs, “QA-1, 2 January 2020, Statement of the Spokesperson of the Ministry of Foreign Affairs, Hami Aksoy, in Response to a Question Regarding the Signature of the Agreement on the EastMed Project”, 2 January 2020. [www.mfa.gov.tr/sc\\_-1\\_-eastmed-projesine-iii%C5%9Fkin-anlasmanin-imzalanmasi-hk-sc.en.mfa](http://www.mfa.gov.tr/sc_-1_-eastmed-projesine-iii%C5%9Fkin-anlasmanin-imzalanmasi-hk-sc.en.mfa)

### III. Bringing offshore Eastern Mediterranean gas to market

The past decade has revealed a promising resource potential in the Eastern Mediterranean and at the same time challenges in converting part of this potential into exploitable commodities. Tamar— Israel’s first large gas field discovered in 2009— was developed and brought on stream rapidly, owing to the availability of a local market that was ready to absorb the gas after the interruption of Egyptian supplies.<sup>30</sup> Conversely, it took a decade to achieve first gas from Leviathan, Israel’s largest gas field discovered in 2010.<sup>31</sup> Cyprus made its first gas discovery, Aphrodite, nine years ago. Despite making two additional discoveries since then, Calypso and Glafcos, the country has yet to exploit its offshore wealth.

Beyond Egypt, the nature of these deep-water discoveries, size of the local markets and limited infrastructure did not grant the countries with this newfound resource wealth the autonomy they needed to fully exploit and export these resources. Geopolitical tensions added to these challenges. In addition, and at a local level, the management of the sector at times led to unintended outcomes further complicating the monetization process. For example, Israel’s regulatory hurdles not only delayed the development of Leviathan but also contributed to scaring away investors.<sup>32</sup> Had Australia’s Woodside Petroleum acquired a 25 percent stake in Leviathan in 2014 as it initially planned, Israel would have likely avoided the anti-trust saga that unfolded and crippled the Israeli gas sector over the following years.<sup>33</sup>

With increasingly competitive gas markets, a collaborative approach creating synergies among the various players in the region that could result in bringing the costs down and improving regional integration may be needed for a chance to make these resources competitive. The EMGF offers a platform to coordinate such efforts.

Despite its own challenges, Egypt emerged as a natural option to monetize Eastern Mediterranean gas resources owing to its central location, its large market and existing infrastructure and a series of reforms that revived interest in the Egyptian gas sector and ultimately led to major discoveries.<sup>34</sup>

Companies operating in the region as well as governments initially eyed Egypt for its large market, but the discovery of the giant Zohr gas field and the coming on stream of a series of other gas fields allowed the country to achieve self-sufficiency by the end of 2018.<sup>35</sup> With narrowing prospects for supplying the Egyptian market in the short to medium term, attention turned to Egypt’s large gas export infrastructure. Indeed, the complicated prospects for monetizing Eastern Mediterranean gas resources, in addition to tense relations between Ankara and its neighbors that complicated

*Amid increasingly competitive gas markets the EMGF offers a platform to coordinate efforts among the various players in the region to lower costs and improve regional integration.*

30 BBC, “Egypt scraps Israel gas supply deal”, 23 April 2012. [www.bbc.com/news/world-middle-east-17808954](http://www.bbc.com/news/world-middle-east-17808954)

31 Reuters, “Israel’s Leviathan gas field begins production -companies”, 31 December 2019. [www.reuters.com/article/israel-natgas-leviathan-idUSL8N2950IA](http://www.reuters.com/article/israel-natgas-leviathan-idUSL8N2950IA)

32 S. Henderson, “Israel’s Leviathan Gas Challenge and the Consequences of Failure”, The Washington Institute for Near East Policy, Policy Alert, 27 October 2015. [www.washingtoninstitute.org/policy-analysis/view/israels-leviathan-gas-challenge-and-the-consequences-of-failure](http://www.washingtoninstitute.org/policy-analysis/view/israels-leviathan-gas-challenge-and-the-consequences-of-failure)

33 C. Forster, “Woodside agrees new deal to take 25% of Israel’s Leviathan gas field”, S&P Global Platts, 7 February 2014. [www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/020714-woodside-agrees-new-deal-to-take-25-of-israels-leviathan-gas-field](http://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/020714-woodside-agrees-new-deal-to-take-25-of-israels-leviathan-gas-field)

34 M. Ouki, “Egypt - a return to a balanced gas market?”, The Oxford Institute for Energy Studies, Paper NG 131, June 2018. [www.oxfordenergy.org/wpcms/wp-content/uploads/2018/06/Egypt-a-return-to-a-balanced-gas-market-NG-131.pdf](http://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/06/Egypt-a-return-to-a-balanced-gas-market-NG-131.pdf)

35 *Egypt Today*, “Ministry: Egypt achieves self-sufficiency in natural gas production”, 25 December 2018. [www.egypttoday.com/Article/3/62547/Ministry-Egypt-achieves-self-sufficiency-in-natural-gas-production](http://www.egypttoday.com/Article/3/62547/Ministry-Egypt-achieves-self-sufficiency-in-natural-gas-production)

prospects for transit via Turkey, directed stakeholders' attention to Egypt, not only as a destination for gas exports, but also as a transit route. In a way, the lack of export infrastructure in the region has provoked an implicit competition between Turkey and Egypt to act as a transit route for the region's resources.

Boosted by developments in 2015, in particular the discovery of the Zohr gas field, Egypt's Ministry of Petroleum laid out an ambitious modernization project for its oil and gas sector in 2016.<sup>36</sup> This project among other things, sets a path to gradually transform Egypt into a regional energy hub. Following the discovery of Zohr, Italy's ENI mentioned the possibility of setting up a hub "aimed at making the Egyptian transport and export facilities also available for the nearby discoveries," bringing together the "resources of Egypt, Cyprus, Israel and at some later point Libya," provided that the countries of the region "are able to define common strategies."<sup>37,38,39</sup> Turning Egypt into a hub of some sorts (the nature of which has yet to be defined) has become a recurring subject. While prospects are still uncertain at this stage, Egypt's bid to become a regional energy hub has received initial backing from international partners, including the United States, the EU and the World Bank.<sup>40</sup>

The large infrastructure in question, which allows Egypt to receive, distribute and export volumes of natural gas, includes two liquefaction plants (Idku and Damietta), a floating storage and regasification unit, two cross-border pipelines<sup>41</sup> and a local transmission network.

In particular, the two liquefied natural gas (LNG) terminals in Idku and Damietta, which have a total capacity of 12.2 million tons per annum, attracted the attention of neighboring countries and operators of nearby gas fields as the only presently-available options to transport volumes of gas beyond the region, despite challenging economics. In October 2019, Noble Energy and Delek, the lead partners in Israel's Leviathan and Tamar gas fields, announced a deal with Egyptian conglomerate Dolphinus Holdings for the sale of 85.3 bcm of natural gas from both fields over a period of 15 years for an estimated value of USD 19.5 billion, starting January 2020.<sup>42</sup> Part of the gas is destined for the local market and part of it will be liquefied and re-exported. Noble Energy, the outgoing operator of the Cypriot Aphrodite gas field, was also considering the option of building a pipeline connecting Aphrodite to Egypt for liquefaction at Idku by 2025.

*In Egypt, the two liquefied natural gas terminals in Idku and Damietta, which have a total capacity of 12.2 million tons per annum, attracted the attention of neighboring countries and operators of nearby gas fields as the only presently available options to transport volumes of gas beyond the region.*

## GLOBAL MARKET CONDITIONS

But global LNG prices are already putting these deals to test. In March 2020, Egypt halted LNG exports from Idku for several months due to low spot prices, as Cairo is

36 N. Kubíková, "Modernization as a New Strategy", Egypt Oil & Gas, 9 January 2017. [egyptoil-gas.com/features/modernization-as-a-new-strategy-speaking-with-egypt-oilgas-his-excellency-eng-tarek-el-molla-introduces-egypts-oil-and-gas-sector-modernization-program/](http://egyptoil-gas.com/features/modernization-as-a-new-strategy-speaking-with-egypt-oilgas-his-excellency-eng-tarek-el-molla-introduces-egypts-oil-and-gas-sector-modernization-program/)

37 ENI, "The President of Egypt Abdel Fattah Al-Sisi meets Eni's CEO, Claudio Descalzi", press release, 19 October 2015. [www.eni.com/en-IT/media/press-release/2015/10/the-president-of-egypt-abdel-fattah-al-sisi-meets-eni-s-ceo-claudio-descalzi.html](http://www.eni.com/en-IT/media/press-release/2015/10/the-president-of-egypt-abdel-fattah-al-sisi-meets-eni-s-ceo-claudio-descalzi.html)

38 S. Jewkes and O. Vukmanovic, "Eni plans to hold the keys for east Mediterranean gas exports", Reuters, 15 September 2015. [www.reuters.com/article/eni-mediterranean-gas/eni-plans-to-hold-the-keys-for-east-mediterranean-gas-exports-idUSL5N11H18020150915](http://www.reuters.com/article/eni-mediterranean-gas/eni-plans-to-hold-the-keys-for-east-mediterranean-gas-exports-idUSL5N11H18020150915)

39 ENI, "Eni CEO Claudio Descalzi at 'Middle East and North Africa Energy'", press release, 25 January 2016. [energyegypt.net/claudio-descalzi-at-middle-east-and-north-africa-energy/](http://energyegypt.net/claudio-descalzi-at-middle-east-and-north-africa-energy/)

40 S. Sideris, "The World Bank is ready to finance Egypt's energy projects", IBNA, 30 July 2019. [balkaneye.com/the-world-bank-is-ready-to-finance-egypts-energy-projects/](http://balkaneye.com/the-world-bank-is-ready-to-finance-egypts-energy-projects/)

41 The two pipelines are the 10 billion cubic meters (bcm) per year Arab Gas Pipeline connecting Egypt to Jordan, Syria, Lebanon and potentially Turkey, and the 7 bcm per year El-Arish-Ashkelon pipeline connecting Egypt to Israel.

42 M. Samir, "Israeli gas exports to Egypt to increase to 85.3 bcm over 15 years", *Daily News Egypt*, 3 October 2019. [dailynewsegypt.com/2019/10/03/israeli-gas-exports-to-egypt-to-increase-to-85-3-bcm-over-15-years/](http://dailynewsegypt.com/2019/10/03/israeli-gas-exports-to-egypt-to-increase-to-85-3-bcm-over-15-years/)

unwilling to sell the gas at below USD 5 per million British thermal units (BTU).<sup>43</sup> Already last year, Idku's exports fell sharply between August and October 2019 due to low prices.<sup>44</sup> The deal to import gas from Israel was later revealed to have included a clause allowing the buyer to reduce volumes imported by up to 50 percent if Brent price is below an average of USD 50 per barrel throughout the year.<sup>45</sup> Plans to import gas from Aphrodite by the mid-2020s have been shrouded in doubt from the start.<sup>46</sup> In June, Noble Energy, which was already suffering from strained finances, has signaled its intention to "reconfigure" its work schedule in Cyprus due to the coronavirus pandemic and the drop in commodity prices.<sup>47</sup> On July 20, Chevron announced an agreement to acquire the Texas-based company, and the takeover was completed in October.<sup>48</sup> Assuming that Chevron holds on to Noble Energy's assets in Cyprus and Israel, the U.S. major may reexamine certain aspects of Aphrodite's development plan and the second phase of Leviathan's development.

Gas markets were already under pressure before the coronavirus crisis swept across the industry. A combination of oversupply—as a series of LNG projects came online in 2019—and weaker demand kept a lid on prices. The industry was bracing for a series of new projects that threatened additional waves of supplies over the coming years.

The coronavirus crisis exacerbated the supply-demand imbalance in the short term. Gas consumption throughout 2020 is set to drop by about 4 percent compared to 2019, according to the International Energy Agency.<sup>49</sup> However, the full impact of the crisis on the industry cannot yet be measured. The pandemic also deferred a number of LNG projects as companies reconsidered their spending, financing became more difficult and projects under construction were put on hold. While it is hard to predict when the impact of the crisis will fade, from an industry perspective, the outlook on the medium to long term is more positive with a sustained growth in global demand for gas while lesser volumes of LNG may hit the markets as a result of the slowdown in investments spurred by the crisis and the deferral, or even cancellation, of projects. Gas markets may emerge in a healthier shape after the crisis.

However, since there will still be ample supplies, LNG markets will remain highly competitive, keeping pressure on and leaving little room for new high-cost producers.

## LOCAL AND REGIONAL MARKETS

Offshore Eastern Mediterranean gas resources face considerable commercial challenges. A number of export routes beyond the immediate neighborhood—whether in LNG form or via pipelines—have been investigated but “none ha[ve] been found economically feasible” at this point and are “likely to remain uncompetitive” given prevailing prices in export markets.<sup>50</sup>

43 Peter Stevenson, interview with author, 25 May 2020. Stevenson is Mediterranean analyst at Middle East Economic Survey (MEES).

44 *Enterprise*, “Idku natgas exports reduced by 80% since August -source”, 13 October 2019. [enterprise.press/stories/2019/10/13/idku-natgas-exports-reduced-by-80-since-august-source](https://enterprise.press/stories/2019/10/13/idku-natgas-exports-reduced-by-80-since-august-source)

45 P. Stevenson, “Egypt Halts LNG Exports As Eni & Shell Bear The Brunt Of Gas Surplus”, Middle East Economic Survey (MEES), 10 April 2020. [www.mees.com/2020/4/10/oil-gas/egypt-halts-lng-exports-as-eni-shell-bear-the-brunt-of-gas-surplus/f1f6f100-7b33-11ea-98a1-d7a0ef9df7e1](https://www.mees.com/2020/4/10/oil-gas/egypt-halts-lng-exports-as-eni-shell-bear-the-brunt-of-gas-surplus/f1f6f100-7b33-11ea-98a1-d7a0ef9df7e1)

46 C. Ellinas, “Gloomy outlook: Aphrodite moves to exploitation”, *CyprusMail*, 17 November 2019. [cyprus-mail.com/2019/11/17/gloomy-outlook-aphrodite-moves-to-exploitation](https://cyprus-mail.com/2019/11/17/gloomy-outlook-aphrodite-moves-to-exploitation)

47 E. Hazou, “Noble hints at delay in plans for Aphrodite gas field”, *CyprusMail*, 16 June 2020. [cyprus-mail.com/2020/06/16/noble-hints-at-delay-in-plans-for-aphrodite-gas-field](https://cyprus-mail.com/2020/06/16/noble-hints-at-delay-in-plans-for-aphrodite-gas-field)

48 Chevron, “Chevron Completes Acquisition of Noble Energy”, press release, 5 October 2020. [www.chevron.com/stories/chevron-completes-acquisition-of-noble-energy](https://www.chevron.com/stories/chevron-completes-acquisition-of-noble-energy)

49 International Energy Agency, “Gas 2020”, June 2020. [www.iea.org/reports/gas-2020](https://www.iea.org/reports/gas-2020)

50 Amira El-Mazni, interview with author, 30 June 2020. El-Mazni is an independent LNG expert and former EGAS vice chairman for regulatory affairs and leader of the Oil & Gas Hub Strategy team, which is program 6 of Egypt's Oil & Gas Sector Modernization Project.

Export projects depend above all on economic viability. In the Eastern Mediterranean, this is often hampered by relatively high prices of gas at the wellhead. In light of the above, what then are the markets in which these gas resources can be competitive?

Technically speaking, local and regional markets represent the most reasonable destination for Eastern Mediterranean gas resources. On paper, these are the primary markets that have the potential to convert much of these resources beyond Egypt into exploitable commodities. While it would be unfortunate to overlook the growing demand for natural gas in the region, a regional solution faces serious challenges, including geopolitical tensions that may prove too difficult to overcome. (See part II above.)

Opting for a regional solution brings to light two central issues: 1) the importance of improving intra-regional gas infrastructure connectivity and 2) pursuing policies at the national level to encourage demand growth and continuously aim to expand the share of natural gas in the energy mix. Here too, the EMGF represents a valuable platform to coordinate such efforts.

The closest markets within reach— Egypt, Israel, Jordan and Turkey— consumed over 115 bcm of natural gas in 2019.<sup>51,52</sup> The small Cypriot and Lebanese markets plan to start importing natural gas over the next few years, while demand in war-torn Syria is expected to recover with post-war reconstruction.<sup>53,54</sup> Gas demand is expected to grow at a robust pace with plans to increase the share of natural gas in the power generation mix across the region, while industrial, residential and transportation gas use is also set to grow, albeit at a more modest pace.

There is a real opportunity in power generation not only because gas can be used to “replace oil and coal imports and encourage new private-sector power generation,” but also because in many countries in the region “the development and maintenance of even basic infrastructure have been neglected through decades of conflict.”<sup>55,56</sup> Reliable power supplies are lacking and have been a main “source of discontent among populations.”<sup>57</sup> “Electricity demand is predicted to triple in the region over the next 30 years, fueled by high population growth.”<sup>58</sup> This in itself is an opportunity for the region’s natural gas resources. “If a full-scale regional grid is ruled out because of political conflicts, power could be supplied from new and upgraded plants in individual countries, and possibly coordinated through a central hub.”<sup>59</sup>

The two largest natural gas consumers in the immediate vicinity are Turkey and Egypt, followed by Israel.<sup>60</sup> Egypt and Israel largely rely on domestically produced gas. When it comes to Egypt’s supply/demand balance, the picture is “slightly fuzzy.”<sup>61</sup> On one hand, Egypt faces high decline rates at already producing fields and a growing population, but Cairo is also looking at virgin, frontier acreage in its Western Mediterranean to possibly

*“Electricity demand is predicted to triple in the region over the next 30 years, fueled by high population growth.” This is an opportunity for the region’s natural gas resources.*

51 S. Elliott, “Jordan’s lawmakers approve draft law to ban Israeli gas imports: reports”, S&P Global Platts, 20 January 2020. [www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/012020-jordans-lawmakers-approve-draft-law-to-ban-israeli-gas-imports-reports](http://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/012020-jordans-lawmakers-approve-draft-law-to-ban-israeli-gas-imports-reports)

52 BP, “Statistical Review of World Energy 2020”, 69th edition, 2020, p. 36. [www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf](http://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf)

53 G. Lakes, “Cyprus enters LNG era with FSRU groundbreaking at Vassilikos”, S&P Global Platts, 10 July 2020. [www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/071020-cyprus-enters-lng-era-with-fsr-groundbreaking-at-vassilikos](http://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/071020-cyprus-enters-lng-era-with-fsr-groundbreaking-at-vassilikos)

54 *The Daily Star*, “Lebanon opens bids for LNG terminals”, 3 July 2019. [www.dailystar.com.lb/Business/Local/2019/Jul-03/486638-lebanon-opens-bids-for-lng-terminals.ashx](http://www.dailystar.com.lb/Business/Local/2019/Jul-03/486638-lebanon-opens-bids-for-lng-terminals.ashx)

55 Amira El-Mazni, interview with author, 30 June 2020.

56 *Ibid.*

57 *Ibid.*

58 *Ibid.*

59 *Ibid.*

60 BP.

61 Peter Stevenson, interview with author, 25 May 2020.

offset its declining fields.<sup>62</sup> Supplies are expected to exceed domestic demand until the mid-2020s, unless additional discoveries can start production.<sup>63</sup>

This leaves the Turkish market— which imports the bulk of its natural gas consumption— as the region’s heavyweight, particularly as contracts for about 45 bcm per year are due to expire by 2026.<sup>64</sup> On the 21st of August 2020, Turkey announced the discovery of Tuna-1 in the Black Sea with an estimated potential of 320 bcm of natural gas (later revised up to 405 bcm).<sup>65,66</sup> It is not clear at this point if these estimates are for recoverable resources, but if and when production starts, it may displace a portion of gas imports. How large a portion this is remains unclear, and though it is not enough to meet domestic needs, the discovery raises the chances for more to come. In the meantime, the Turkish market remains hard to ignore for offshore Eastern Mediterranean gas producers who face real challenges in finding markets where their gas can be competitive. However, equally hard to ignore are the geopolitical tensions that stand in the way.

## BEYOND THE IMMEDIATE NEIGHBORHOOD

For more distant markets, a pipeline to Europe faces significant economic and geopolitical obstacles, which makes LNG a more reasonable, though still ambitious, aspiration. However, exporting significant volumes of gas in liquefied form in the future will require serious effort by companies and governments in the region to render Eastern Mediterranean gas competitive in global markets.

For companies, the key will be to keep upstream costs as low as possible and to find common ground with other companies— and potential competitors— to create synergies via joint developments, unless a player emerges with significant stakes in natural gas assets and infrastructure across the region. According to the GaffneyCline study prepared for the World Bank, prices at the wellhead within the Eastern Mediterranean region need to be in the range of \$1.50 to \$3.00 per million BTU to enable delivered costs to end user markets to be competitive.<sup>67</sup> This is an ambitious target given prices at the wellhead for most deep-water gas fields in the region. To date, on paper, the least complicated way for the region’s offshore gas to reach global markets remains via Egypt’s LNG terminals. There, liquefaction tariffs are currently in the range of \$1.75 per million BTU.<sup>68</sup> These terminals have the advantage of being already built and ready to export.<sup>69</sup>

Expanding the region’s liquefaction capacity appears to be an ambitious target at this stage. If at all justified, expanding the capacity of Egypt’s LNG plants would be the more affordable option in the future. Other options have been suggested, such as an LNG plant in Cyprus or, more recently, on the Red Sea (though it raises the issue of over-dependence on a single transit route via Egypt), in addition to a floating LNG

*For more distant markets, a pipeline to Europe faces significant economic and geopolitical obstacles, which makes LNG a more reasonable, though still ambitious, aspiration.*

62 *Ibid.*

63 Amira El-Mazni, interview with author, 30 June 2020.

64 D. O’Byrne, “Commodities 2020: Turkish gas market promising further changes in 2020”, S&P Global Platts, 31 December 2019. [www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/123119-commodities-2020-turkish-gas-market-promising-further-changes-in-2020](http://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/123119-commodities-2020-turkish-gas-market-promising-further-changes-in-2020)

65 TPAO, “TPAO discovers a colossal gas field in Western Black Sea offshore, first ever gas discovery in Turkish ultra-deep water”, press release, 21 August 2020. [www.tpao.gov.tr/file/2008/tuna-discovery-press-release-3435f3fe76919966.pdf](http://www.tpao.gov.tr/file/2008/tuna-discovery-press-release-3435f3fe76919966.pdf)

66 TPAO, “TPAO has made a second discovery in the lower section of Tuna-1 well adding another 85 BCM (3 TCF) lean gas to its Sakarya Find in Western Black Sea”, press release, 17 October 2010. [www.tpao.gov.tr/file/2010/press-release-tuna-1-discovery-17-10-2020-3825f8b0ef03ee93.pdf](http://www.tpao.gov.tr/file/2010/press-release-tuna-1-discovery-17-10-2020-3825f8b0ef03ee93.pdf)

67 Ryan Pereira, interview with author, 7 July 2020.

68 P. Ramsay, “Apicorp sees more woes for Egyptian and Algerian LNG”, *Petroleum Economist*, 13 October 2020. [admin.petroleum-economist.com/articles/midstream-downstream/lng/2020/apicorp-sees-more-woes-for-egyptian-and-algerian-lng](http://admin.petroleum-economist.com/articles/midstream-downstream/lng/2020/apicorp-sees-more-woes-for-egyptian-and-algerian-lng)

69 Peter Stevenson, interview with author, 25 May 2020.

solution, an option examined by Leviathan's previous operator for the second phase of the gas field's development despite its challenges.<sup>70</sup>

Against this background, Chevron's entrance as a major player in the Eastern Mediterranean— provided that they do not divest their assets in the region— may give further impetus to monetization projects in the region with a bolder approach to risk and a bigger ability to deploy and mobilize capital compared to the Texas-based company.

For governments, a wide range of efforts is needed, from proposing competitive fiscal frameworks to liberalizing markets and opening access to relevant infrastructure, encouraging regional cooperation and harmonizing policies and regulatory frameworks.

Whether for governments or for companies, the EMGF offers a platform to coordinate exactly such efforts. As outlined by the 2019 Cairo Declaration, the Forum aims to work toward the creation of a regional gas market, optimize resource development, encourage an efficient utilization of existing and future infrastructure and foster cooperation, including at the level of policies.

Naturally, Egypt is at the center of this envisioned configuration. But turning vision into reality requires Cairo to pursue sector reforms, including the liberalization of its gas market and a reconsideration of its pricing schemes to encourage the import of natural gas from nearby gas fields and reexport it within the region and beyond via its large gas infrastructure.

These are daunting tasks. If the stars align, the end-result might well unlock the region's offshore gas riches by improving their competitiveness.

Incidentally, if this chain of events takes its course and facilitates the exploitation of offshore resources, it could limit the impact of Turkey's "spoiler strategy." The time for dialogue comes when all sides become aware that they have something to lose, as well as something to gain. To make the most out of these resources and ensure a healthy climate for investors, no side should be marginalized. Coronavirus-related postponements in the region could give stakeholders a pause and may be an opportunity for a diplomatic effort to defuse tensions.

70 A. Barkat, "Israel, Egypt mull Sinai LNG plant for Asian exports", *Globes*, 28 July 2019. [en.globes.co.il/en/article-israel-egypt-mulling-sinai-lng-plant-for-asian-exports-1001295220](https://en.globes.co.il/en/article-israel-egypt-mulling-sinai-lng-plant-for-asian-exports-1001295220)

## IV. Making the forum work

As recently evidenced by the postponement of a series of drillings in the region and a licensing round in Lebanon, the current low-price environment makes the deep-water gas potential of the Eastern Mediterranean less attractive for investors keen on controlling their operating expenses.<sup>71</sup> But gas markets, much like oil markets, are cyclical. A decline in exploration budgets and slowdown in project investments are usually followed by a slower than expected growth in supplies ultimately driving prices upwards again.

This does not mean that the countries of the Eastern Mediterranean merely need to sit out the cycle. An improvement in global market conditions will not automatically reflect positively on the region's potential. LNG markets will remain highly competitive due to ample supplies, thus keeping pressure on high-cost producers. The competitiveness of deep-water gas resources in the Eastern Mediterranean is by nature challenged and is further hampered by small local markets in some cases, insufficient infrastructure to bring this gas to customers, geopolitical tensions and, at the national level, certain shortcomings in the regulatory frameworks. These are the parameters that affect the competitiveness of these offshore resources.

Some of these parameters are beyond the realm of human control. To mitigate the innate challenges associated with the development of deep-water gas resources in the Eastern Mediterranean, the other parameters—insufficient infrastructure, shortcomings in the regulatory frameworks and geopolitical tensions—must be addressed for a chance to make these resources competitive. This entails a collaborative regional approach geared toward capitalizing on existing infrastructure, creating synergies to bring upstream costs down, and reviewing certain aspects of the regulatory frameworks to help make exports viable. This is a complex worklist with no guarantee of results. The EMGF offers a platform to address these constraints, coordinate efforts and formulate potential solutions. As such, it is an encouraging first step, but one that must ultimately be scaled up and, ideally, broadened to include other regional players to fully achieve its potential.

At this point, it is too early to anticipate how the forum will evolve or if it will be able to carry out its mission and impose itself as an efficient player that could facilitate the monetization of the region's resources. From a geopolitical perspective, leaving a number of countries out of the equation may not necessarily lead to unwanted consequences. But it is not without risks either. It may encourage those countries that feel left out to join efforts and coordinate their policies. The region could do without alignments and counter alignments possibly amplifying current trends and creating additional frictions that could also be exploited and fueled by outside actors. For Egypt in particular, how relations between Turkey and its neighbors are going to evolve might also affect the Forum. However unattainable it appears to be at this point, a stabilization of Ankara's relations with its neighbors following a diplomatic push is not impossible. In this case, Egypt's neighbors may then find that exporting part of their production to Turkey could also be an attractive option. This may challenge Egypt and the EMGF's added value of leveraging existing infrastructure in Egypt to facilitate the development of the region's offshore gas resources. Egypt and the EMGF must anticipate this scenario, however unlikely it may seem, and demonstrate enough creativity and flexibility to remain relevant.

71 Lebanese Petroleum Administration, "Postponement of the deadline for the submission of applications to participate in the Second Offshore Licensing Round", 31 May 2020. [www.lpa.gov.lb/english/news-and-media/news/postponement-of-the-deadline-for-the-submission-of-the-solr-applications](http://www.lpa.gov.lb/english/news-and-media/news/postponement-of-the-deadline-for-the-submission-of-the-solr-applications)



From a governance perspective, the Forum has most to gain by promoting a set of international standards to maximize the benefits derived from the exploitation of natural resources. Working to reduce corruption and illicit financial flows and making sure projects comply with environmental, social and health standards would contribute to ensuring a healthy environment for states, investors and citizens. The EMGF should also lead by example and strive to enhance transparency, starting by launching an online platform providing more information about the organization (its structure, activities, publications and financial resources) and by encouraging members to work toward the implementation of the Extractive Industries Transparency Initiative. In addition, and as the only regional organization focused on the exploitation of natural gas resources and bringing together governmental bodies, financial institutions and private sector companies, the EMGF must support the exchange of industry skills among its members. This could start with traditional forms of training sessions for public sector employees and industry professionals from EMGF countries, then move toward investment in research via, for example, the establishment of an energy knowledge hub involving the private sector and institutions of higher education.<sup>72</sup>

72 M. El Ghandour, "An East Med Center of Excellence in the Making?", *Egypt Oil & Gas*, 9 September 2019. [egyptoil-gas.com/features/an-east-med-center-of-excellence-in-the-making](http://egyptoil-gas.com/features/an-east-med-center-of-excellence-in-the-making)

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