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The East Med Energy Report

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To each era, its pipeline

Last month, the U.S. State Department shared its skepticism over the EastMed gas pipeline with the governments of Greece, Cyprus and Israel in a non-paper that found its way to the press and quickly became the subject of controversy.

The document cited commercial viability and environmental concerns among the reasons for withdrawing support for the project. Had it stopped there, it probably would not have caused such an outrage, particularly in Greece and Cyprus. After all, the pipeline's viability has long been in doubt and the need to focus on cleaner energy projects is shared by all parties involved. But the document cited a third reason, referring to the destabilizing effect of the planned pipeline which has exacerbated regional tensions.

From a Greek and Cypriot Greek perspective, the position exposes the limits of U.S. support in the face of what they perceive as a serious threat to their security: Turkish violations of their sovereign rights. It is a reminder that despite a decade of closer cooperation and alignment of interests, coinciding with years of frictions in U.S.-Turkish-relations, Ankara remains a key actor "that must not be lost" for Washington.

An assessment that is shared by Israel. That explains why Israel has repeatedly been receptive – cautious but receptive still – to various initiatives to mend ties with Turkey in the past, despite disappointing results. As a senior Israeli official told Axios recently: “If a leader of an important Muslim country like Turkey reaches out to Israel, there is no option other than giving a positive answer”.

With the U.S. withdrawing support for the EastMed gas pipeline, and a potential improvement in Israeli-Turkish relations (Israeli President Isaac Herzog is planning a visit to Turkey next month), it was inevitable that a rival pipeline project would make headlines again: an offshore pipeline, approximately 550 km long, connecting Israel’s Leviathan gas field to Turkey.

The idea was first floated in 2012, shortly after the discovery of the giant gas field, and drew the attention of various Turkish and Israeli companies. It gained steam after the U.S.-brokered Israeli apology to Turkey in March 2013 then fell off the radar as the reconciliation process stagnated. It reappeared in the media following a reconciliation agreement between the two countries in 2016 and was the subject of discussions during Israeli Energy Minister Yuval Steinitz’ visit to Ankara in October that year. When asked about prospects for the EastMed pipeline and the Israel-Turkey pipeline in July 2017, Steinitz hailed both projects and said: “Don’t force me to choose”. But the pipeline was forgotten as relations between Israel and Turkey soured again in 2018.

Turkish President Recep Tayyip Erdogan brought it back in the news in the latest episode of the saga. Commenting on the withdrawal of U.S. support to the EastMed pipeline, he told reporters on January 18 that the project was not feasible, and that “if it [gas] will be transferred to Europe from here, it will only happen through Turkey”. He referred to earlier discussions between Turkey and Israel to export Israeli gas to Turkish and European markets and said that Ankara is eager to resume talks and discuss the terms.

But considerable challenges stand in the way of an Israel-Turkey pipeline. The first is the island of Cyprus and its Exclusive Economic Zone (a route through the Lebanese and Syrian EEZs is a non-starter).
Although UNCLOS leaves the door open for third countries to lay submarine cables and pipelines in the EEZ of a coastal State, it specifies that, in exercising this right, they must have due regard to the rights and duties of the coastal State and must comply with its laws and regulations.
In addition, it is unlikely that improvements in Israeli-Turkish relations would come at the expense of Israel’s ties with Cyprus and Greece. The Cyprus obstacle might be too difficult to overcome at this stage then, prior to any arrangements that would appease tensions in the region.

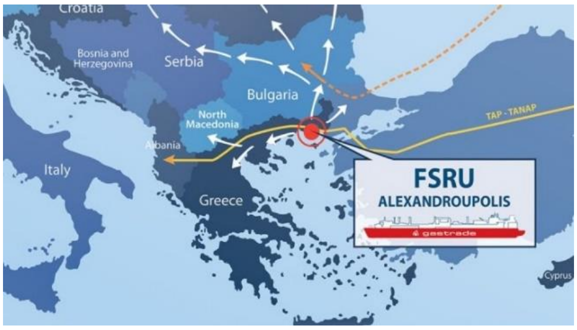
Second, despite the shorter distance and lower costs involved compared to the EastMed pipeline, the commercial viability of a pipeline export route to Turkey and into Europe is uncertain and must be reevaluated. While the Turkish market is one of the most logical destinations for offshore East Med gas resources – though it is becoming increasingly competitive and may soon be able to count on local production to meet part of its demand –, the prospects for supplying European markets by pipeline are less clear given uncertainties over prices and demand, as climate policies are likely to keep future demand growth in check. In comparison, an LNG solution, which offers greater flexibility in terms of destination, might be more appealing to offshore East Med gas producers.

Where the Turkish President gets it at least partially wrong is that East Med gas is already being “transferred to Europe from here", including to Turkey, via Egypt's LNG plants. There might be room for new export projects in the future. But beyond demonstrating their economic and commercial viability, they must also pass the political feasibility test.

Alexandroupolis reaches FID. An opportunity for East Med gas?

Gastrade announced on January 28 that it has taken a final investment decision (FID) for the construction of the Independent Natural Gas System (INGS) of Alexandroupolis, in northern Greece.

The 5.5 bcm/year import terminal is expected to begin operations by the end of 2023. The project consists of a Floating Storage and Regasification Unit (FSRU) with a capacity of 153,500 m^3, which will be connected to Greece's natural gas transmission system via a 28-km pipeline. It will allow the delivery of regasified LNG to the markets of Greece and the wider South-Eastern European region.



In particular, the Interconnector Greece-Bulgaria (IGB) will allow gas to move northward when completed. The pipeline is expected to become operational in 2022, although a history of delays should keep expectations in check. The IGB has an initial capacity of 3 bcm/year but can be upgraded to transport up to 5 bcm/year.

The "strategic synergy" between the IGB and the Alexandroupolis terminal will not only allow Bulgaria to diversify its sources of supply, but it also represents an opportunity for East Med gas producers to tap into new markets.

Bulgaria is indeed considering a potential participation in the East Mediterranean Gas Forum, as acknowledged by its Ambassador in Egypt on November 24, 2021, on the eve of the Forum's ministerial meeting, and is interested in diversifying its gas supplies via LNG imports from Egypt.

E.U. pledges €757 million to end Cyprus' energy isolation

The European Commission announced on January 26 that E.U. member states approved a proposal to invest over €1 billion in five cross-border infrastructure projects under the Connecting Europe Facility (CEF) for trans-European energy networks.

The EuroAsia Interconnector received the lion share of the funding, with €657 million. This is in addition to the €100 million the project had previously secured via the Recovery and Resilience Facility instrument. According to the Commission's website, a final, formal decision on the CEF grants is expected in the coming weeks.

The EuroAsia Interconnector is a planned 1,208-km underwater electric cable connecting the Cypriot, Greek and Israeli transmission networks with a total capacity of 2,000 MW. It is one of two projects (the other being the EuroAfrica Interconnector) explicitly mentioned in a statement released by the U.S. embassy in Athens last month to affirm Washington's commitment to "physically interconnecting East Med energy to Europe", following news that the U.S. withdrew support for the EastMed pipeline.

The €657 million committed for the EuroAsia Interconnector will support the first leg in the project, an 898-km line between Kofinou in Cyprus and Korakia in Crete, which will represent the first electricity interconnection between Cyprus and the European power grid when completed.

Action: 3.10.2-CYEL-W-M-21-EuroAsia Works CY-GR © PLATTS for the underlying grid; Source: INEA

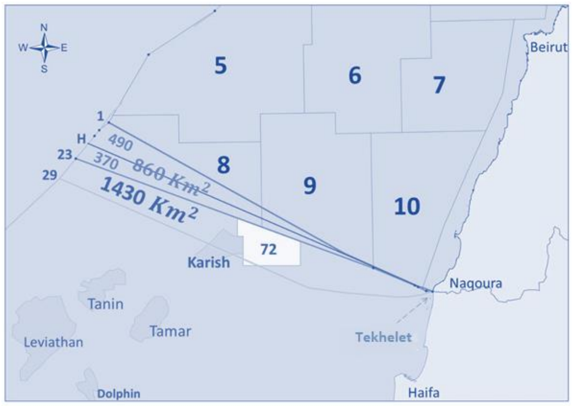
Curiously, this sum is allocated to a section of the interconnector that faces geopolitical and legal challenges as it passes through a zone that Turkey considers as part of its Continental Shelf. A week after Cyprus, Greece and Israel signed an MoU to build the interconnector on March 8, 2021, Ankara sent a diplomatic note to the Greek and Israeli embassies and to the EU delegation, clarifying that they must seek its permission before conducting any work in its Continental Shelf.
It is unclear how the project can be pursued in the absence of arrangements with Turkey.

Cypriot Energy Minister Natasa Pilides expects a short period of negotiations between the project developer and the E.U. before the signing of the contract in summer 2022.
On its website, the project developer expects work on the EuroAsia Interconnector to begin in 2022, and commissioning in the first half of 2026.

New proposals to settle the Lebanon-Israel maritime border dispute

U.S. energy envoy Amos Hochstein returned to Lebanon on February 8 after a visit to Israel, in an attempt to "narrow the gaps" between the two countries over their maritime claims.

Hochstein submitted new proposals to settle the dispute focusing on an area that largely corresponds to the initial, 860-km² disputed area, between Line 1 and Line 23. The extended disputed area – adding 1430 km² to Lebanese claims and ending in Line 29 –, which was defended by the Lebanese negotiating team in indirect rounds of talks in Naqoura, was never officially adopted by the Lebanese State and was often and publicly referred to as a maximalist position that is up for negotiations.



The ideas that the U.S. envoy put forward reportedly take into consideration two Lebanese demands: (i) dropping the Hof line and (ii) avoiding, if possible, a demarcation that could result in having cross-border fields or prospects. Joint development of common deposits would be interpreted as a form of normalization with Israel and that is a path Lebanon has made clear it is not ready to engage in.

Despite a sense of cautious optimism in Beirut, Lebanese officials involved in discussions are measured and only describe Hochstein's new proposal as "serious", pending further details and certain adjustments. Following his meeting with Hochstein, Prime Minister Najib Mikati's media office released a statement saying that the PM will discuss the new proposals with President Michel Aoun and Speaker Nabih Berri to determine the Lebanese position. Despite persistent claims to the contrary, Lebanese officials have long struggled to formulate a common stance on the subject, or on how to approach it.

The decision does not rest with the three leaders alone. On this issue in particular, no proposal would stand a chance if it were rejected by Hezbollah. The party's Secretary General clarified his position in a televised interview coinciding with Hochstein's visit, saying that "the issue of border demarcation is the responsibility of the Lebanese State, and we abide by its decision". But he stressed that Hezbollah is against "any normalization, cooperation, or coordination with the enemy when it comes to border demarcation". It appears then that a proposal designed within these limits would be open for discussion and would not be rejected outright by the party.

Another obstacle is public opinion. Over the past year and a half, a persistent media campaign convinced the public that Line 29 is technically and legally sound. The fact that it was put forward and supported by the Army – one of the few public institutions that is still trusted by the public – gave it additional credibility. Any backtracking by a discredited political class will be perceived as suspicious and will be questioned by the public and the media.
Two separate media interventions are interesting to note in that regard as they attempted to address misperceptions about Line 29: Speaker Berri's trusted aide Ali Hamdan (MTV, Feb. 10) and President Michel Aoun (Al-Akhbar, Feb. 12) gave interviews to explain to the public that Line 29 was only meant for negotiations. These interventions can also be seen as an indicator that the political class is, at the very least, receptive to Hochstein latest proposals.

Syria's oil sector losses exceed $100bn since 2011

Direct and indirect losses incurred by the Syrian oil sector since the start of the war in 2011 have reached $100.5bn, according to the Minister of Oil and Mineral Resources Bassam Tohme who gave an overview of the performance of the sector in 2021.

Oil production reached 31.4mn barrels in 2021, averaging 85,900 b/d, well below the [387,000 b/d produced in the first quarter of 2011] just before the outbreak of the war. Out of the total production in 2021, only 16,000 b/d were produced in areas held by the government and delivered to the country's refineries in Homs and Banias. This has left the Syrian regime heavily dependent on imports from Iran, but irregular supplies were not enough to alleviate shortages last year. The remaining 70,000 b/d were produced in Kurdish-controlled areas in the eastern part of the country. The Minister referred to these volumes as "stolen by U.S. occupation forces and their mercenaries".
Syria also produced around 4.5 bcm of natural gas in 2021, with an average of 12.5mn m^3/d, compared with over 8 bcm in 2011. The Minister said that 79% of this volume was delivered to the Ministry of Electricity, 6% to the Ministry of Industry and 15% to the Ministry of Oil and Mineral Resources.

The two refineries in Homs and Banias (each with a capacity of 120,000 b/d) are running well below capacity and produced 5.7mn tons of oil products in 2021.