

The future of the Eastern Mediterranean region natural gas alliances in the aftermath of the Arab Spring

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Overview

For a concrete perspective on geopolitical trends in the aftermath of the Arab Spring, it's important to look at the Mediterranean area through the lens of the natural gas trade. On March 12th, Egypt's Parliament voted unanimously to cut diplomatic ties with Israel. The motion of the *Maglis al-Shaab*, Egypt's lower house, calls for an halt in the export of natural gas to Israel. In fact, since 2008, Mubarak's Egypt has supplied Israel with gas through a 100km undersea artery of the Arab Gas Pipeline (AGP), between El-Arish and a gas import facility on Israel's Mediterranean coast. Then, with Hosni Mubarak gone, the pipeline which exported around 40 percent of Israel's gas consumption, has been blown up by militants in Sinai five times sending energy prices in Israel skyrocketing. Although the Arab Spring has been an important determinant on this, other prior developments or related consequences have been important factors in the growing isolation of Israel and in changing the geopolitical assets of the area with further effects also for the EU and the entire region's gas market. In January 2009, Israeli oil company Delek, and U.S. Noble Energy Company, discovered off the coast of Haifa a large natural reservoir known as *Tamar*, which is estimated to hold 8 trillion cubic feet (tcf) of gas. Then, early in 2010, another offshore gas field, called *Leviathan*, with a potential of 16 tcf of gas, was discovered. Once exploited, these two fields could provide Israel with more than its domestic demand turning the country into a net exporter of natural gas. The economic impacts of these natural gas developments on Israel will be significant as Israeli GDP attributable *solely to natural gas production-related activities* is expected to grow between 0.1-0.2 percent in 2011 and 2012, and 0.2-0.4 percent between 2013 and 2016. Since the cooling of relations with Ankara, Israel has sought alternative allies in the Mediterranean region, courting Greece and Cyprus. In fact, just before *Leviathan* was announced, in December 2010, Israel and Cyprus signed an agreement delineating each country's exclusive economic zone (EEZ) as the *Leviathan* field is located close to the agreed maritime border. The cooperation deal has also opened the way for Greece to fill the vacuum Turkey left in Israel's regional relations and high level talks between the two countries have taken place about the construction of an underwater pipeline to Europe which would supposedly make Greece the transit country for Israeli gas to reach Europe, bypassing Turkey, its traditional partner. Obviously, these recent developments challenge Turkey's claim as the central energy hub for Europe and its Prime Minister's *Strategic Depth* doctrine which envisioned Ankara's domination of the Mediterranean waters, including its sea routes and marine mineral resources. Sub-regional relations were further strained by the peculiar political situation of Cyprus. Finally, Lebanon has also indicated its antagonism to the newly discovered natural gas fields in the Israeli EEZ and it has never ratified the earlier reached agreement with Cyprus due to fears that the Turkish government might express reservations, thus jeopardizing economic interests between Ankara and Beirut. Taking into consideration the conflicting positions of the various nations involved, the issue of gas discoveries become a highly complicated matter politically, economically and strategically in an area which has been recently shaken by the Arab Spring. The important questions are therefore, whether these dynamics are temporary or risk turning the Eastern Mediterranean region once again into an area dominated by power politics and what are the major economic consequences for the nations involved. The finding of an answer to these questions means to be able to estimate how the geopolitical relations could develop in the long term, which are the main actual and future actors involved and whether the region's natural gas sources will be used for exports or domestic supply. In doing this, the paper will analyze the role and interests of each country cited, with a particular focus on Turkey which appears to be divided between its aims to become a model for the new political regimes in North Africa and its interests for all regional developments that might thwart its plans to become an energy bridge to Europe, and the major economic consequences deriving from a shift in the traditional gas routes.

Methods

The countries of interest for this paper are all located in the Mediterranean area to underline how the Arab Spring could have complicated a series of latent conflicts while strengthening some bilateral economic agreements whose main objective is natural gas reserves exploitation and commerce. Through a deep literature review and an analysis of the level of political agreement and dialogue between the actors involved, the paper examines the internal and external factors that can hinder or accelerate the development of geopolitical relations in the area. The data used in the analysis are taken from the main existing literature and Governments' reports, while statistical data on gas market trends come from the involved gas companies' reports and the EU database and official communications.

Results

The Arab Spring has brought about political openings and the chance, at least in some Arab states, to embark on paths that could lead to more open and participatory political and economic systems. Yet, their repercussions with regard to

peace in the Eastern Mediterranean area may have been less positive. Margareth Thatcher used to say that “there is no such thing as society”, and what happened in North Africa and Middle East was the return of society, even though a highly fragmented one and without any clear leadership. The new regimes, which are evidently not prepared to allow greater citizens' participation in decision making, will probably avoid taking deeply unpopular decision. As a result, countries like Egypt are considering to cut gas exports to Israel while Turkey is looking for a way to emerge as a super power in the area. They are also changing their behaviour towards neighbouring countries forcing them to find new allies and gas suppliers. In fact, regime changes came as a shock not only to politicians but also to gas companies while disrupting the historical route of natural gas supplies. In some countries, as Egypt, it can be expected that the recent events will alter the gas monetization policies leading to smaller volumes of gas being available for export. With the tightening of the supply-demand balance on global gas markets in the next few years, such developments could have tangible effects on international market dynamics and prices while endangering FDI flows in the gas sector. In fact, the region has constantly been a focus of the superpowers because of its geo-strategic location and natural resources. In doing this, the EU had increasingly turned a blind eye to the fragility of the regimes it cooperated with, while pursuing its interests in the energy domains. However, the revolts sweeping across the area and the hydrocarbon discoveries in the Eastern Mediterranean could serve as a catalyst toward greater cooperation amongst the participant countries and change the whole political and economic scene calling for a serious rethink also in Western policies towards the region.

Conclusions

The energy trade is an important determinant of the global balance of power, and the shift to natural gas the world is facing will introduce a new set of winners and losers, bringing greater independence to many countries and forcing others to find new strategic alliances. In the aftermath of recent developments, it seems that a zero-sum-game logic has come to dominate interstate relations across the area. Turkey seems to be the region's most ambitious player. Ankara's government is facing a number of internal and external challenges but its main concern remains the safeguarding of its position as the main hub for EU oil and gas supplies. However, tensions between Turkey and the Greek Cypriots may be exploited by those EU member states that are already against Turkey's membership. At this stage, Ankara might emerge as an over-assertive power aiming to become the region's hegemon, defending its national interests while tightening ties with the Arab regional actors, as Lebanon. It might side with the West in realizing French President Sarkozy's aim to model the Mediterranean Union on the EU, while starting to consider membership of this first as an alternative to the EU. Otherwise, it might materialize the risk of ending up with a “zero relations” policy with its neighbours. Egypt, the only country in the Middle East that has formally recognized Israel, has been a significant player in the regional balance of power and there are already emerging signs that its relations with Israel might become more problematic as many of the new representative Arab governments will have to legitimize their actions to the public opinion rather than bending to external actors or simply pandering to the ruling elite's interests. A growing popular influence on regional relations seems to be a particular problem for Israel, and its search for new alliances could provoke new geopolitical assets and negative consequences. Israel gas discoveries could transform the country in a net gas exporter tightening its ties with the EU. Being the second gas markets in the world, and due to its proximity to the Leviathan Basin, it's hardly possible that the EU will focus on Israel for its future supply. This situation could also make even more complex the Palestinian statehood issue.

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