

opinion piece

South East European Studies
at Oxford

Energy and security in the East Mediterranean:
How energy will play an increasingly important
role in the security of the East Mediterranean

Androulla Kaminara

March 2014



seesox
South East European Studies at Oxford

St Antony's College
University of Oxford

Energy and Security in the East Mediterranean: How energy will play an increasingly important role in the security of the East Mediterranean

Security in the East Mediterranean is influenced and affected by the access, availability and transport routes of energy. My aim is to analyse how the security of the region and the energy perspectives interrelate and to draw some conclusions for the future. Three different aspects were tackled: the interests of the super-powers in the region, the security threats; and the developments in the individual countries.¹

A. The super-powers

The East Mediterranean has always been strategically important to the big world powers and has been the theatre of many of their proxy conflicts. More analytically:

- The US, which is expected to be soon self-sufficient in energy following the shale gas revolution, has always had a keen interest in the East Mediterranean with respect to ensuring stability in the region, supporting Israel's energy security and reducing Russia's influence. As many analysts however are saying, "President Obama made "pivoting" away from the Middle East and toward Asia the cornerstone of his foreign policy."² In view of the recently announced reduction in military personnel it is expected that the USA will be even more interested in the reduction of potential security risks in the area. Cooperation on energy could be one way that reduction in the security risks could be achieved.³
- On the other hand, Russia has been interested in occupying the Mediterranean "niche market" in order to prevent others from competing with her, particularly for the European market, where it is currently providing 34% of the natural gas and is by far its biggest supplier. The Russian budget is very much dependent on tax revenues from energy exports and with her remaining gas reserves in the Arctic circle being very expensive to extract and too far to transport to the markets. Any new finds that are discovered in the East Mediterranean are thus of increased strategic interest for Russia – both to minimise competition to itself as well

¹ This article was presented at a seminar at St Antony's College Oxford. The seminar was chaired by Prof. Avi Shlaim and discussant was Dr Gareth Winrow, an independent research analyst and consultant based in Oxford.

http://en.wikipedia.org/wiki/Avi_Shslaim

² <http://www.theatlantic.com/china/archive/2013/04/the-us-should-focus-on-asia-all-of-asia/274907/>

³ <http://www.reuters.com/article/2014/02/24/us-usa-defense-budget-idUSBREA1N11O20140224>

as potential reserves that Russia could exploit and benefit from. At the time of writing this article, the Ukrainian crisis is evolving with potentially far-reaching consequences for the strategic interests of Russia in the Mediterranean.

- Chinese energy needs will continue to drive world energy markets and it is expected that by 2035, 60% of world energy demand will be from China. By 2040, China is projected to consume twice as much energy as the US, even though the per capita consumption of energy in China is much lower than in the US. These two facts alone are sufficient to have Chinese increased concerns about security matters in the Middle East. After all, the Middle East accounts for more than 60% of the world's proven conventional oil reserves and 40% of the world's proven gas reserves, so no energy hungry country like China can afford to ignore the Middle East.
- The interests of the European Union have been to promote security and stability within its borders, at its borders and with and between its neighbours. At the same time, the energy needs of the EU are on an upward trend, and its dependency on imports of gas expected to rise from 64% of gas imports in 2009 to well over 70% by 2030.⁴ The data shows that many Member States import all or almost all of their energy, with Malta and Cyprus being the most vulnerable countries, followed by Luxembourg, Ireland, Estonia, Lithuania and Greece.⁵ When it comes to natural gas more specifically, many Member States import all or almost all of their gas needs, the list here is longer and includes Latvia, Slovakia, Czech Republic, France, Portugal, Estonia, Finland, Greece, Spain, Lithuania, Luxembourg, Slovenia, Belgium and Bulgaria.⁶ With this in mind and in order to minimise dependency on a few producers, EU energy policy has been promoting the diversification of Europe's energy suppliers, the use of renewable energy and the development of indigenous energy sources to ensure security of supply.

⁴ http://www.european-council.europa.eu/media/171257/ec04.02.2011-factsheet-energy-pol_finaldg.en.pdf

Oil represents the bulk of total EU energy imports (60%), followed by gas (26%) and solid fuels (13%). Most of the oil imports come from OPEC (38%) and Russia (33%), while Norway and Kazakhstan respectively provide 16% and 5%. **Gas** represents about 27% of the EU energy imports and comes mainly from four big suppliers: Russia (21%), Norway (26%), Algeria (17%) and Nigeria (5%), but Russia's share of the EU gas supply has been significantly decreasing over the last 15 years due to diversification. The share of gas imported through pipelines is also decreasing to the benefit of sea-borne Liquefied Natural Gas.

⁵ http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp145_en.pdf

⁶ <http://ec.europa.eu/energy/observatory/countries/doc/2012-country-factsheets.pdf>

B. Security Aspects

Security in the East Mediterranean can be imperilled from a number of factors not only from the traditional threat of terrorist attacks on infrastructure or accidents - man made or natural. Security is also be affected by political instability that could disrupt supplies, from energy price fluctuations making energy prices too expensive for most consumers or a combination of these factors.

With respect to energy price fluctuation for example, on the 28 August 2013, when the USA and certain western allies were expected to launch military action on Syria, Brent crude oil prices rose by 6% to \$117 a barrel, which was the highest price for over two years, even though Syria was a very small producer of oil. At the time of writing this article, energy prices are soaring again as a result of the Ukrainian crisis.⁷

Unrelated to political crises are the even present risks of accidents in offshore oil and gas operations. The EU adopted in June 2013 a regulatory framework aiming to reduce the occurrence of major accidents related to offshore oil and gas operations which, in the closed Mediterranean Sea, would have a devastating effect.⁸

The other potential threats to security and energy are discussed below in the context of analysing the situation of the individual countries of the region.

C. Countries of the region

- **Turkey** aims to diversify its suppliers and ensure that its rapidly growing demands in natural gas are met. Turkey is increasingly reliant on natural gas mainly from Russia (about 55%) and 19% from Iran. It wants to develop into a hub for energy supply to Europe – which on the one hand will increase its energy security and will ensure that it has sufficient energy for its own needs – being partly guaranteed by the fact that the pipelines would go through its own territory. At the same time, it will have the financial benefit from the lucrative market of transit fees and will increase its geostrategic importance for Europe. To put this into context, Turkey's own demands are expected to rise by 40% by 2020. It has promoted closer relationships with Iraqi central government in Baghdad but even closer with the Kurdish Regional Government (KRG) in the north. It has pursued closer relations with KRG despite the implications that this has for Ankara's unresolved Kurdish problem. However, the cooperation of Turkey with Iraq is not without controversy, the Iraqi-Turkey pipeline – which is part of the Baku-Tbilisi-Erzurum (BTE) pipeline - has in fact being attacked over 30 times in 2013. However, relations with Iraq and particularly the KRG are vital, if Turkey is to achieve its ambition to diversify supply from energy dependency from Russia and to become a hub for supplies from Azerbaijan to Europe. It is also noteworthy that Turkey has recently taken steps to build a nuclear power station in Akkuyu in cooperation with Russia and a

⁷ <http://www.bbc.co.uk/news/business-26418664>

⁸ http://europa.eu/rapid/press-release_IP-13-449_en.htm

second station in Sinop in cooperation with a Franco-Japanese consortium.⁹

- **Israel** has undergone a dramatic evolution in its energy policy in the last couple of years. Since 1948, Israel has been heavily dependent on energy imports and its energy spending was equal to 5% of GDP. However in 2013 the whole situation changed with the offshore Tamar field coming on stream and covering Israel's current domestic demand. The other major offshore field – the Leviathan field - is due to come on stream in 2017. In the last few months, Israel has entered into historic agreement with the Palestinian Power Generation Company for exports from Leviathan. In addition, only a few weeks ago – a \$500 million deal was also signed by Nobel Energy with Jordanian firms for exports from Tamar for 15 years starting in 2016.¹⁰ Both of these deals, are in line with the policy that Israel has adopted to export 40% of its natural gas resources with a priority being given to the region and the markets in the neighbourhood. Another very important development is the adoption of the bi-partisan US Bill that amends a pre-existing Israeli-USA energy cooperation bill of 2007. Very interestingly, the draft bill outlines some of the priorities of the cooperation as “identifying policy priorities associated with Israel's natural resource development” and to cooperate so as to “leverage natural gas resources to impact regional stability positively” which defines a much more close cooperation between the two countries from that existing already.
- **Syria:** At the time of the very difficult negotiations of Geneva II on Syria, it should not be forgotten that Syria was one of the biggest producers of energy in the Levant and that it also aspired to be an energy hub and an alternative route for Iraqi oil. In December 2013, the Syrians signed an agreement with SoyuzNefteGAz which is controlled by the Russian state Bank. The agreement covers the area stretching southward from the government controlled city of Tartus, where Russia has its only naval base in the Mediterranean and about 45 miles into the Mediterranean in the Syrian EEZ. Syria offers land-locked countries such as Iran and Iraq access to the Mediterranean, if they don't want to go through Turkey and it clear that whatever emerges in post conflict Syria, could redraw the energy map of the region.
- **Cyprus:** The announcement in December 2012 of discoveries of approximately five trillion cubic feet (Tcf) in the offshore Aphrodite field has changed Cyprus geostrategic importance in the region as well as its energy potential.¹¹ Shuttle diplomacy between Cyprus and neighbouring

⁹ <http://www.world-nuclear.org/info/Country-Profiles/Countries-T-Z/Turkey/>

¹⁰ <http://www.jpost.com/Enviro-Tech/Tamar-partners-sign-export-agreement-with-Jordanian-firms-341908>

¹¹ Europe, including all EU members plus Turkey, Norway, Switzerland, and the non-EU Balkan states, consumed 18.7 trillion cubic feet (Tcf) of natural gas in 2013
<http://www.eia.gov/todayinenergy/detail.cfm?id=15411>

countries – particularly Israel but also Lebanon and Egypt has increased dramatically in the last couple of years and the island also aspires to be an energy hub for the region. If Israel wishes to export natural gas to Turkey – the pipeline would either go through Cypriot Exclusive Economic Zone (EEZ) or through Lebanese and Syrian EEZs. In the current context, the Cyprus route seems the more plausible of the two options, even though the precondition for this to become a reality is the solution of the Cyprus problem. In the last couple of years, various options for the monetisation of the discoveries have been studied and alternative scenarios still being discussed, but so far no firm decision has been taken. In any case, 2014 will be a significant year for the fate of role of Cyprus, as the negotiations between the two communities have been resumed in February 2014, but also since additional drilling will take place both by Noble Energy which is involved in the Aphrodite field, but also ENI/Kogas and Total, which will clarify the magnitude of the reserves in the island's EEZ zone.

- **Greece:** The other EU Member State of the East Mediterranean which is currently holding the presidency of the Council of the European Union – has had a boost in its regional role in the energy context following the decision last summer on the TAP pipeline, which will link the Shah Deniz II in Azerbaijan via Turkey, Greece, Albania via the Adriatic to Italy and the other European markets. In effect, this pipeline will enhance Greece's role in the inter-connection and inter-dependency of energy supply. At the same time, Greece is pursuing investigations to determine the extent of its own potential hydrocarbon reserves – which are considered to be good in the Ionian and the northern Aegean. Greece surprisingly has not yet had any agreement with any of its neighbours with respect to delimitating its own EEZ – not even with the other EU member states (Italy and Cyprus) despite efforts that started over a decade ago.¹²
- **Egypt** has been undergoing drastic political changes in the last few years but also major changes with respect to its role as an energy player in the region. The political changes in the country have been closely linked to the energy issue. In April 2012, the then President Morsi terminated the contract that supplied Israel with natural gas. By 30 June 2013 the massive rallies which led to the overthrow of Morsi were partly due to the huge fuel shortages that the country was experiencing at the time. People took to the streets to complain about this as well as to complain about the lack of democracy in the country. In its new phase, combined with the other political problems it has to face, Egypt's energy woes are set to increase since they are forecasting energy shortages in the next year in the midst of falling domestic production.¹³ In addition, despite being a producer, Egypt

¹² Ex Deputy Minister of Foreign Affairs Valinakis article in Foreign Affairs <file:///Users/androullakaminara/Documents/ENERGY%20PER%20COUNTRY/GREECE/EEZ%20Valinakis%20to%20σξέδιο%20«Ελλάς%20επί%20Τέσσερα»%20%7C%20Foreign%20Affairs%20-%20Hellenic%20Edition.webarchive>

¹³ <http://uk.reuters.com/article/2014/02/03/egypt-gas-idUKL5N0L82C920140203>

has very costly energy subsidies, which account for 6% of GDP and for 70% of all government subsidies. In the current political and social context, any attempt to bring these subsidies down may cause increased tensions and more political unrest. Threats to its energy infrastructure are also a problem. The Sinai desert pipeline for example has been repeatedly targeted by terrorists. At the same time, the importance of the Suez Canal cannot be underestimated for the global energy supplies, since 10% of the world total shipped goods go through the canal and any threat to the Canal would have enormous consequences on the region and globally

- **Algeria**, although it was not part of the Arab spring, it nonetheless has experienced the most significant terrorist incident linked to the Arab spring – i.e. the attack on the BP facility in January 2013 which left 68 people dead. This event coupled with the general volatility in the region, caused a reduction in foreign direct investment of 15%, aggravating further the financial problems to the country. Algeria, similarly to Egypt, heavily subsidizes the cost of energy, has a massive youth unemployment level of about 45% despite being blessed with natural resources. In an attempt to avoid spill-over effects of the Arab Spring, Algeria has increased public salaries in 2011-12 by up to 50%, putting additional pressures on its budget which are not sustainable in the long term.
- **Jordan** imports 97% of its energy needs and last summer has decided to develop a nuclear power station which is intended to be operational by 2016. The very recent agreement on energy supply with Israel, will at least partly meet its energy needs for the next 15 years.
- **Libya** two years after the collapse of the Gaddafi regime could be heading towards bankruptcy since there was a reduction of 85% in oil production over this period.¹⁴ The impact of the reduction of oil production on its budget is dramatic since it is 90% dependent on incomes from oil and gas. Just a few days ago, on 11 March 2013 Libyan Prime Minister was ousted after an incident concerning oil exports from the port of Al-Sidra. Over 85% of Libya's crude used to be exported to Europe.¹⁵
- **Lebanon**, is also heavily dependent on imports, with 95% of its needs of its energy are covered by oil imports. It auctioned a number of offshore blocks in 2013 with great interest from many of the international oil companies, but its dependency on imports will continue for some time yet to come.

¹⁴ From 1.6 million barrels per day to 230,00 million barrels now
<http://www.aljazeera.com/programmes/countingthecost/2014/03/libya-heading-towards-bankruptcy-2014313173334276217.html>

¹⁵ http://www.iea.org/media/news/facts_libya.pdf

Although the conditions of the countries of the region vary widely, all countries of the region seem to have been working with the aim of diversifying suppliers and those that are producers, diversifying markets.

Finally, it has to be noted that nearly all the new discoveries of energy resources in the East Mediterranean are of natural gas. This is important since natural gas exploitation requires huge investments in infrastructure and long term commitments that would span a couple of decades at least. This is also another factor that pushing countries to cooperate and to sign long-term cooperation agreements.

In a previous article of mine, it was argued that “time is running for the East Mediterranean gas discoveries”.¹⁶ A number of reasons were given why time is of the essence, in order to seize the window of opportunity that exist currently for natural gas rich countries of the region.

The “elephant in the room” in the East Mediterranean however were the Palestinians. With the resolution of the Israeli – Palestinian conflict, cooperation between key countries of the region would become possible and mutually beneficial.

In the analysis given above, it has been highlighted that the trend is for countries to try and minimise their dependency on few suppliers and for those that export natural gas, on a few markets. Countries of the region, are in a constant search of new alliances and while the super powers are redefining their spheres of influence in the area. Old or obvious conflicts have been overlooked and alliances and cooperation have been put in place. Put simply, the co-operations that have been set up have been the ones that make business sense. A number of countries have also been aspiring and competing for the role of energy hub of the region.

Threats to security in the shape of physical attacks on infrastructure and on people, accidents or terrorist attacks exist. These types of threats are unfortunately nothing new. However it is argued that the most potentially dramatic threats to the security of the region could be related to social unrest as a result of energy related problems on the economy of the countries in the region. The reactions of the local populations to energy price fluctuations and the unavoidable reduction of energy price subsidies which sooner or later countries will be forced to implement, may pose the biggest and the most difficult to address threats to the security of the region.

¹⁶ <https://akaminara.wordpress.com/2013/11/29/the-clock-is-ticking-for-south-east-mediterranean-natural-gas-discoveries/>

About the author

Androulla Kaminara is an Academic Visitor, and a former EU Fellow at St Antony's College. Between 2008-12 Ms Kaminara was the Head of the European Commission's Representation in Cyprus. Previously she was the Director for Quality of Development Cooperation Operations in all third countries, Head of Unit for geographic coordination for 44 African and Caribbean countries as well as member of cabinet of two Commissioners. She has been working for the European Commission since 1991. Before joining the Commission she was a senior consultant, special adviser to two Cabinet Ministers in Greece, as well as project leader for a bank and managing director of a private consultancy firm. She holds a B.Sc. in Geology and Physics (Univ. London), Masters in Management Science (Imperial College, London) as well as Maîtrise in International Politics (ULB - Brussels).

ABOUT SEESOX

seesox

South East European Studies at Oxford



SEESOX
European Studies Centre
St Antony's College
University of Oxford
OX2 6JF

Telephone: +44 1865 274537

Fax: +44 1865 274478

E-mail: julie.adams@sant.ox.ac.uk

South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality teaching and research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within the University of Oxford (e.g. politics, international relations, anthropology, sociology, economics), working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.

www.sant.ox.ac.uk/seesox