INFO PACK

The EastMed Pipeline: Game Changer or Pipe Dream?

TRT WORLD research centre

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WRITTEN BY

Turan Gafarlı

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TRT WORLD İSTANBUL

AHMET ADNAN SAYGUN STREET NO:83 34347

ULUS, BEŞİKTAŞ

İSTANBUL / TURKEY

TRT WORLD LONDON

200 GRAYS INN ROAD, WC1X 8XZ

LONDON / UNITED KINGDOM

TRT WORLD WASHINGTON D.C.

1819 L STREET NW SUITE, 700 20036

WASHINGTON DC / UNITED STATES

www.trtworld.com

researchcentre.trtworld.com

Executive Summary

This Info Pack will delve into the EastMed pipeline's background, the parties involved, its drawbacks, and the winners and losers of recent developments. The pipeline is a natural gas extraction plan advanced by the so called Energy Triangle – Greece, Greek Cypriot administration (GCA), and Israel. The European Commission has identified the EastMed pipeline as a 'Project of Common Interest' and has contributed nearly €35 million towards technical and feasibility studies.

It has faced firm opposition from Turkey and the Turkish Republic of Northern Cyprus (TNRC), who feel that it has violated their rights under international law. The Energy Triangle has hitherto acted unilaterally, disregarding the interests of the TNRC and its guarantor, Turkey. The pipeline has significant drawbacks, not least of which is its limited financial viability.

Turkey's strategic moves have allowed it to gain leverage in any future negotiations vis-à-vis resources in the region. It is the clear winner from recent developments, most notably the signing of the Memorandum of Understanding (MoU), which increased its Exclusive Economic Zone (EEZ) claims. Losers include Egypt and Greece, whose plans have been put in a bind.

A clear solution exists to increase the project's viability: involve Turkey. This will allow the EastMed pipeline plan to be more efficient, competitive, and to become a win-win for all concerned parties.

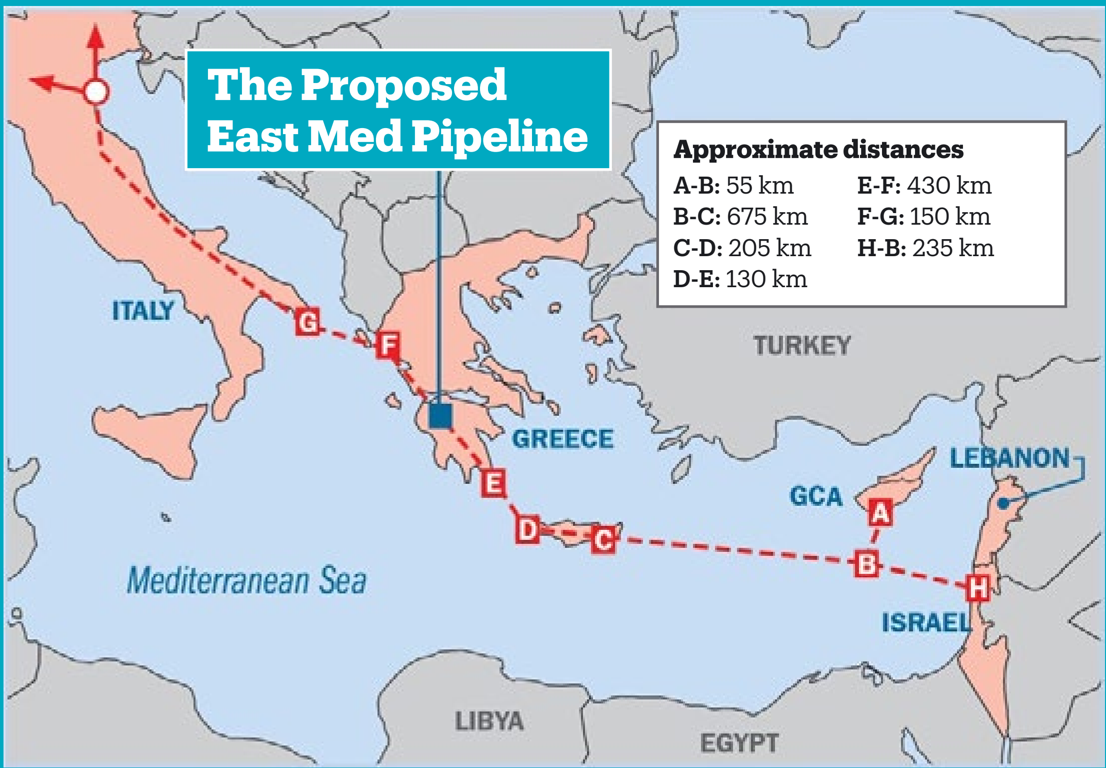
(Yannis Liakos - Anadolu Ajansı)

Introduction

The EastMed pipeline agreement, a $7 billion project, is scheduled to be signed on January 2nd in Athens and has the potential to transform the future of the region. It promises to exploit the rich resources in the Eastern Mediterranean to the benefit of certain countries, and the counter-productive exclusion of others.

The EastMed pipeline will be a costly and potentially unsustainable undertaking by project stakeholders. While its success remains possible, the myriad of risks faced means it could become another ambitious trans-European project that is ultimately dead in the water.


(Şahin Oktay- Anadolu Agency)



Source: Southfront

The EastMed Pipeline's Background

The region's energy landscape was turned on its head in 2009 with the discovery of significant gas reserves in the Eastern Mediterranean, including off the coasts of Cyprus and Israel. More reserves were found in subsequent years, adding up to an estimated 40 trillion cubic feet of natural gas.

The so-called Energy Triangle of Greece, Greek Cypriot administration, and Israel arose from the increased collaboration that resulted from the discoveries. They accelerated efforts for closer ties in the energy domain, which has resulted in the recent EastMed pipeline project. This regional alliance has been collaborating for years – including militarily – in a fragile conflict-prone region.

A culmination of years of cooperation, the EastMed pipeline promises to boost their individual economies while helping the EU pivot away from Russia with respect to gas consumption.

However, the project does come with risks, especially concerning its proposed route. The Greek Cypriot administration signed an EEZ with Lebanon, Egypt, and Israel unilaterally, neglecting the maritime jurisdictions of Turkish Cypriots. The TRNC has voiced its disapproval alongside Turkey who also has objections. In January 2019, seven energy ministers from the region met to set up the East Mediterranean Gas Forum – leaving out Turkey and Lebanon. Loosely structured, one of the main prerequisites for inclusion seems to be animosity towards Turkey. The provocative nature of the Energy Triangle's actions has caused a series of tit-for-tat measures, further exacerbating the situation. The countries forming the Energy Triangle are likely missing the proverbial forest for the trees, as involving Turkey and the TRNC would have clear advantages for the long-term feasibility of the EastMed pipeline project. Turkey has tabled several solutions to this issue, including a joint exploration initiative.

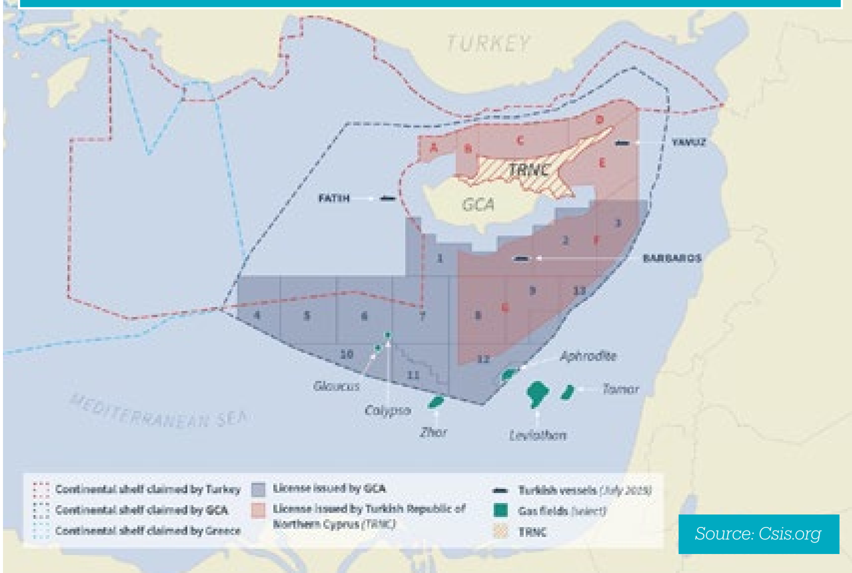
The Parties Involved

There are multiple countries actively involved in developments in the Eastern Mediterranean, including Turkey, Greece, the TRNC, the GCA, Lebanon, Israel, and Egypt.

The resources in the region have also attracted other major players, including the US, the EU and Russia – all with disparate interests. The US has geopolitical concerns vis-à-vis the region, and likewise seeing its allies like the EU pivot away from Russia is always a welcome sight. The EU is primarily motivated by wanting to lessen its dependence on Russia's exports, and Russia has a big share in the European gas market which is under threat.

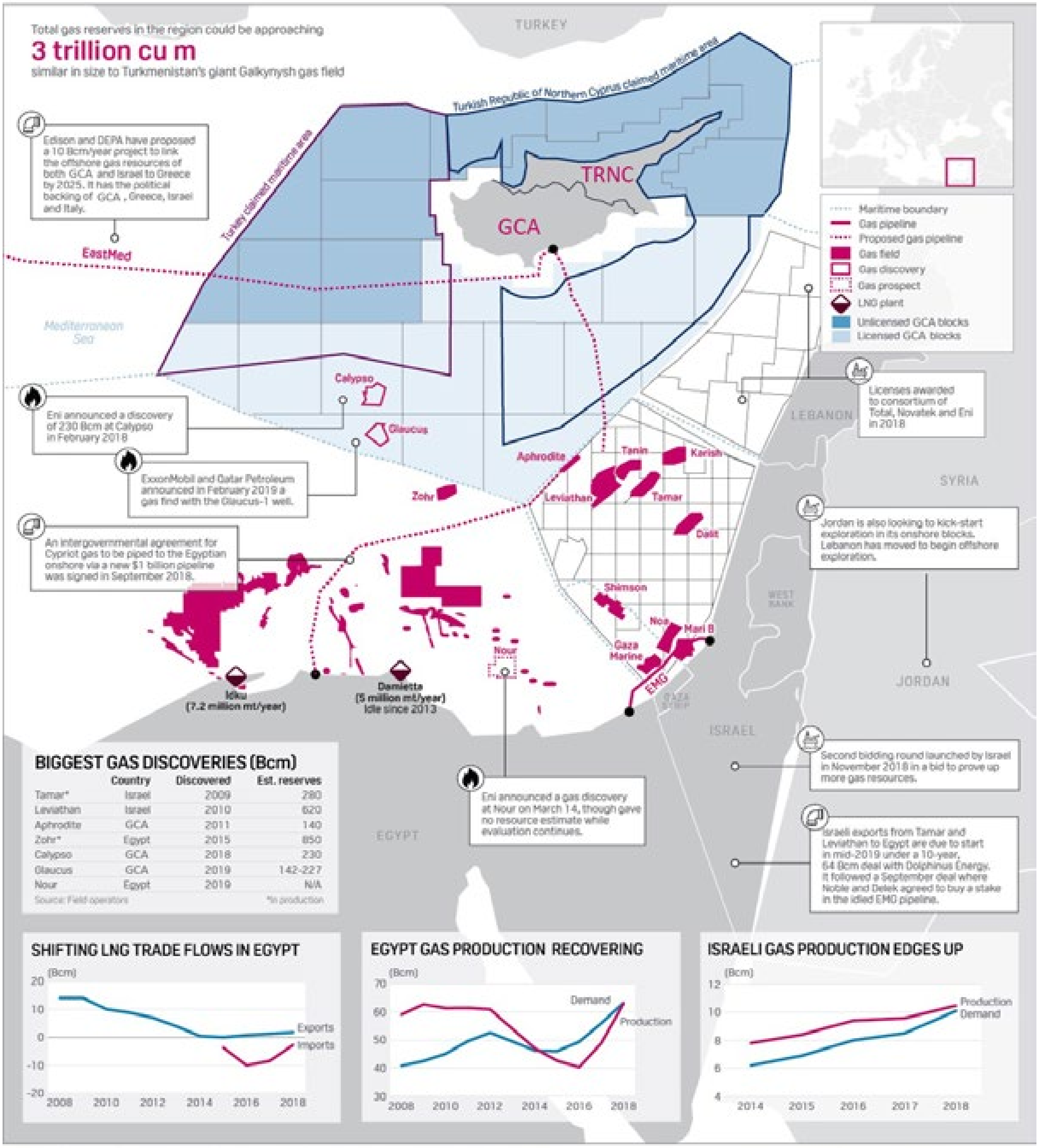
Furthermore, the energy companies present in the region are several. Greek Cypriot administration has partitioned its EEZ into 13 different blocks – 5 notably overlap with Turkey's continental shelf – and has given licenses to various companies for exploration. These include Italy's Eni and France's Total, with the consortium receiving the lions share with 7 out of 13 blocks; South Korea's Kogas, which has a joint license in 3 blocks; US' ExxonMobil, which shares block 10 with Qatar Petroleum, a state-owned company; and US' Noble Energy and British Gas, which share block 12 with Israeli companies Delek Drilling and Avner Oil. Turkish Petroleum likewise plays a large role in the Eastern Mediterranean as a state-owned company.

Maritime Claims by GCA, Greece and Turkey



Source: Csis.org

EAST MEDITERRANEAN GAS: A RISING SUPPLY SOURCE FOR EUROPE ON ITS DOORSTEP?



BIGGEST GAS DISCOVERIES (Bcm)

	Country	Discovered	Est. reserves
Tamar*	Israel	2009	280
Leviathan	Israel	2010	620
Aphrodite	GCA	2011	140
Zohr*	Egypt	2015	850
Calypso	GCA	2018	230
Glaucus	GCA	2019	142-227
Nour	Egypt	2019	N/A

Source: Field operators
*In production

Source: Spglobal.com

Drawbacks to the EastMed Pipeline Project

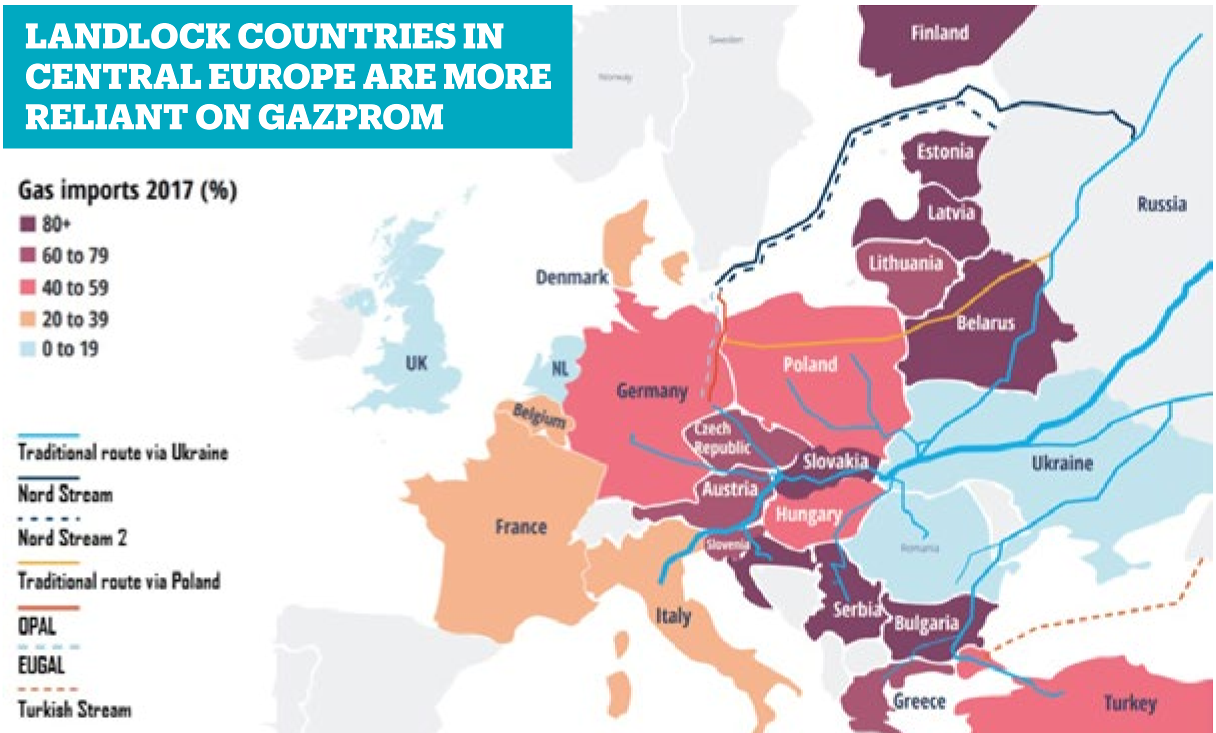
1- Lack of financial viability

By neglecting Turkey, the EastMed pipeline has been forced to take a longer and costlier route, eliciting concerns about the financial viability of the project, which has been projected to cost up to $10 billion dollars to complete. Southern Europe stands to become the main benefactor, and, when coupled with the 10 billion cubic metres of yearly gas output, makes this more of a niche project than a strategic one. It is doubtful that the EastMed pipeline will become a competitive supplier in a saturated market, and its lack of financial viability in its current state should be a concern for project stakeholders.

The current route also proposes to deliver gas from expensive offshore fields, further calling into question EastMed's economic viability. The dearth of serious investors substantiates this fact as questions surrounding the pipeline's commerciality is scaring away entities that can afford the huge costs of construction. Additionally, while a technical feasibility study has been completed, the depth of the pipeline reaches 3000m at some points and it remains uncertain whether the uneven terrain will remain stable. With no investors and no reliable buyers, the viability of this project looks bleak. The agreement's signing on January 2nd is mostly for the purposes of optics, and substantial hurdles have yet to be cleared for signatories to arrive at a Final Investment Decision (FID).

2- The high price of the end product

The EastMed pipeline must prove that it can compete with other suppliers in order to attract the necessary investors. The price of Israeli gas is higher than gas from other sources, with Europe already benefitting from more economical options. Gas delivered via the EastMed pipeline could cost 50% more than from Russian suppliers, with Gazprom already committed to lower future prices than the EastMed is forecast to offer. Only if gas prices are high in the future will the EastMed pipeline stand to profit – however, as things currently stand, this seems unlikely. There are many external factors that this project relies on that are out of the control of stakeholders. This makes it look more like a Nabucco than a Nordstream, where the former failed due to difficulties including a lack of commercial interest and other pipelines being more economically viable.

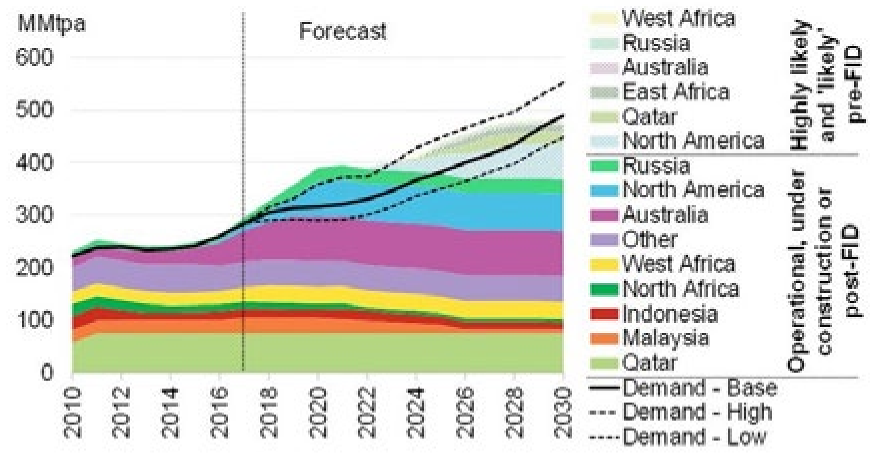


LANDLOCK COUNTRIES IN CENTRAL EUROPE ARE MORE RELIANT ON GAZPROM

Source: euromaidanpress.com

Additionally, the EastMed project will face a highly competitive environment in the coming years. This includes competition from projects such as Turkstream 2 and the Trans Adriatic Pipeline. South-East Europe will be well-served with these alternatives, which also offer better prices and will be operational at an earlier date. There are also plans for other LNG projects that are further ahead than the EastMed in places including Qatar, Australia, and North America. The EastMed has to be competitive with other suppliers to justify its costs, and the exclusion of Turkey comes as an obstacle to this objective.

GLOBAL LNG DEMAND AND SUPPLY CAPACITY



Source: Maggie Kuang, "The Future of LNG"

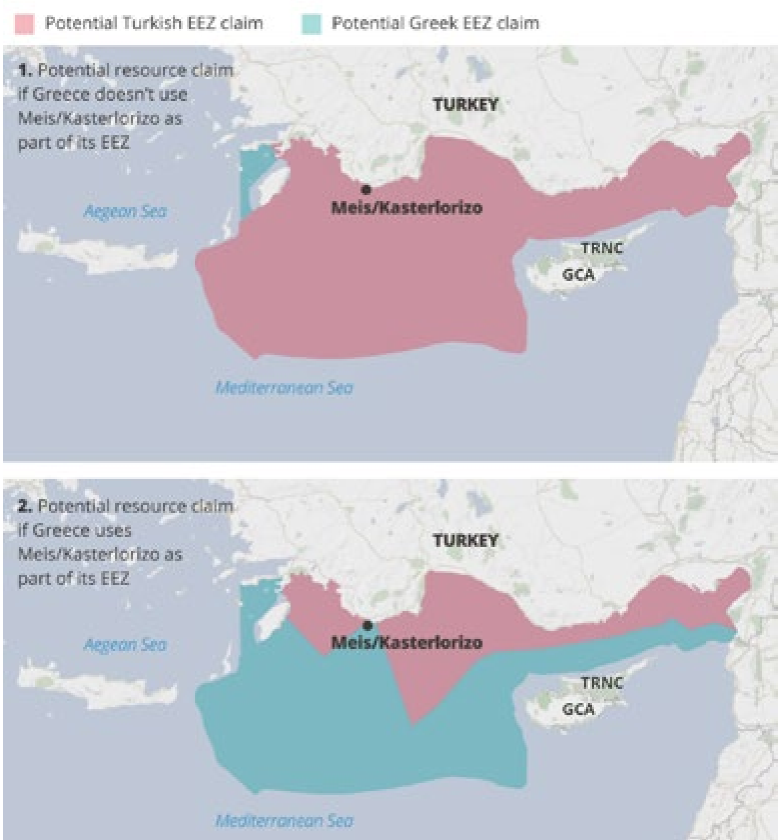
IS TURKSTREAM'S SECOND LINE TO EUROPE DECIDED?

Source: Maggie Kuang, "The Future of LNG"

3- Geopolitical issues

The Eastern Mediterranean is currently a hotbed of fierce geopolitical competition. Naturally then, there exist some geopolitical issues surrounding the EastMed project, including the fact that this pipeline is planned to pass through the maritime jurisdictions of countries that are not considered project stakeholders. This includes areas Turkey and the TRNC hold claims to. Turkey has objected to the pipeline's route on the basis of its claiming of equal rights to the resources in the Eastern Mediterranean region. The significance of Turkey's concerns cannot be understated, particularly following the MoU signed with Libya's UN recognised and Tripoli-based Government of National Accord (GNA). The MoU opened a new chapter in the East Mediterranean equation and has the potential to force parties such as Greece and Israel to negotiate with others on equal and respective terms. The memorandum focused on the 'delimitation of maritime jurisdiction' in the Mediterranean Sea, where the Turkish and Libyan governments officially recognized opposite shores and asserted maritime rights of both countries to the resources in the expanse between themselves. While Greece denounced the MoU because the island of Crete is in the middle of the expanse, Turkey has countered this contention by stating that islands only have territorial waters – which similarly addresses any use of the island of Kastellorizo by Greece as part of its EEZ. Greece denounced the MoU based on the Article 121 of UNCLOS, which gives islands the territorial sea, the contiguous zone, the exclusive economic zone and the continental shelf. Therefore, in the case of the maritime delimitation involving the Greek islands, especially Crete and Kastellorizo, the MoU cuts the maritime border/link between Greece and GCA. However, Turkey counter-argues the Greek claims by stating that the maritime delimitations and the declaration of the Exclusive Economic Zone (EEZ) must be based on the equity principle. Furthermore, Turkey presents example international court cases to refute the determination of the Greek EEZ borders via Kastellorizo Island[1].

A BATTLE OVER OFFSHORE RESOURCES



Source: middleeasteye.net

Moreover, Turkey does not recognise the Greek Cypriot administration or its EEZ agreements with other countries. The interests of the TRNC were flouted by the unilateral actions of neighbouring countries, with potential ramifications for the ongoing peace talks on the island. Ultimately, it is to the benefit of the Energy Triangle to engage with Turkey – not only to bring down the pipeline's costs, but also as it allows the new route to use the significant experience and infrastructure of Turkey in energy transit.

Additionally, the European Investment Bank will stop investing in gas and oil projects from 2021. This is significant because they manage the EU fund that supports the European Commission's new climate change policies, which are expected to shrink gas demand in Europe by nearly 20% by 2030. This will mean low and competitive prices – a risk for the EastMed pipeline and its expensive gas. While gas will still be prevalent, the future is in renewables and only commercially viable pro-

1 For the further information on the legal arguments of Turkey and Greece on the East Mediterranean maritime delimitation and example cases in the international law, please check the discussion paper "[Standing Against All Odds: Turkey's Position in the East Mediterranean]" produced by the TRT World Research Centre.

Key Protagonists

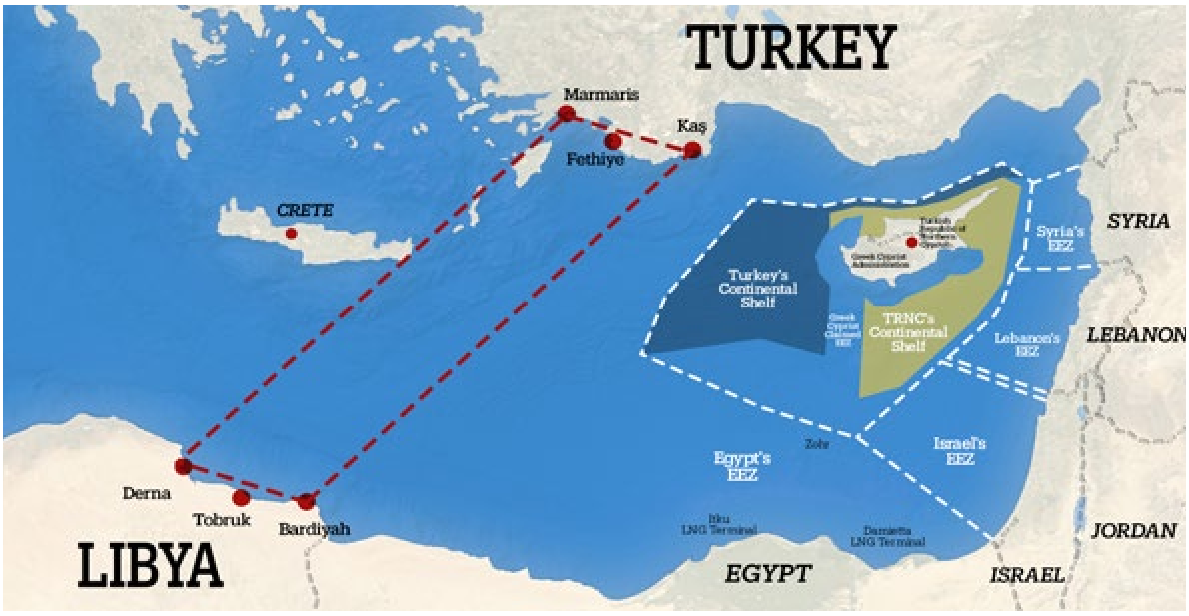
Turkey

As a result of its response of partnering with the GNA in Libya, Turkey has managed to shift the strategic landscape in the region. The MoU should be understood in the context of a geopolitical environment that Turkey has seen as being counter-productive to its interests. The agreement with the Tripoli-based GNA enhances Turkey's leverage in the region, particularly as it relates to the objectives of the 'Energy Triangle'. Due in large part to the MoU, Turkey's consent is now even more central to ensuring the long-term success of the EastMed pipeline plan.

Turkey's strategic location means that it will remain an important transit point. It is also the only financially feasible route for transporting gas out of the Eastern Mediterranean, particularly in the long-term. It is also more efficient, with the closeness of Turkey's Ceyhan port to the discovered gas fields and Turkey having an established set-up of Europe-integrated pipelines being noteworthy advantages.

The exclusion of Turkey from the EastMed pipeline has meant that project stakeholders have taken a longer and more expensive route to avoid its maritime boundaries. This puts the overall viability of the project at risk, as consumers will not want to bear that unnecessary cost. A win-win opportunity does exist – but only if politicians are clear-eyed enough to take it.

Memorandum of Understanding between Turkey and Libya



Source: TRT World Research Centre

The Turkish Republic of Northern Cyprus

While the Greek Cypriot administration encroached on the TRNC's maritime jurisdictions with the EEZ agreements, Turkey's strategic decisions have ensured its long-term interests will remain protected. Turkey's foreign policy has consistently emphasised energy security and the rights of the TNRC.

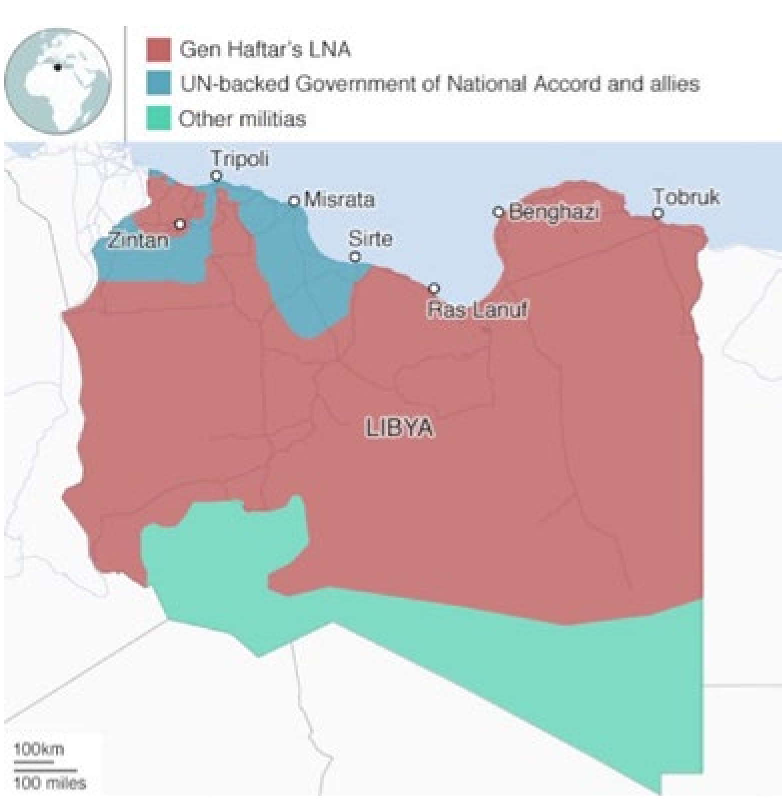
Additionally, plans have been recently announced for a two-way gas pipeline project between the TRNC and Turkey. This will be a boon to both countries and will benefit their respective economies. The ease of securing the 80-km long two-way pipeline, coupled with its low expenses, can help make it a success. This project also has the added benefit of increasing the bargaining power of the TNRC and its guarantor Turkey, as the pipeline can carry gas to Western markets and be a serious alternative to the EastMed project.

Egypt

Once an influential gas exporting country, Egypt has recently had to confront years of crippling inefficiencies. Egypt now relies on Israel to satisfy its growing demand for gas. Sharing similar animosity towards Turkey as the Energy Triangle, Egypt ironically stands to benefit from the Turkish-Libyan MoU as it could claim back its rights from Greece and GCA. This is possibly realised by Egypt, which when criticizing Turkey's involvement used a markedly different pretext than the geographical basis used by Greece.

Egypt also loses as Turkey's support for the GNA in Libya means seeing that its preferred scenario of Khalifa Haftar coming to power is now a bleak proposition. Egypt, alongside other countries such as the UAE and France, have given significant military support to Haftar for his ongoing assault on Tripoli. Turkey's involvement has been a bane to Egypt, as Turkey has accomplished the dual objectives of both solidifying the status of the GNA and gaining leverage in the Eastern Mediterranean via the MoU. Turkey's sustained support for a political resolution in Libya, which is converse to that of Cairo, has balanced a lopsided dynamic in the interests of long-term stability.

LATEST SITUATION IN LIBYA



Source: bbc.com

Khalifa Haftar and the 'Libyan National Army' (LNA)

Khalifa Haftar, the head of the so-called Libyan National Army (LNA) based in Libya's East, has been well looked after in his efforts to disregard any political resolution to the war in Libya. Enjoying the support of a multitude of regional and international powers, he has unsurprisingly rejected the maritime agreement reached between the GNA and Turkey. However, Haftar clearly dislikes the recent developments. Turkey's promised support for the UN-backed GNA comes to the detriment of Haftar's interests as he was hoping for a swift victory in Tripoli. Turkey's involvement has thrown a spanner in the works, and the GNA is now in a much better position to defend itself from any impending assault.

Greece

Greece's initial pipeline plans proved short-sighted and counter-productive as its neglect of Turkey's interests and disregard for its influence have now backfired. Issues such as the EastMed's costlier route and its poor commercial viability have put Greece in a bind; it will plainly benefit from cooperating with its neighbours.

Turkey's recent MoU with Libya also has serious ramifications for Greece. It serves multiple purposes including the prevention of any fait accompli in the region by effectively forcing stakeholders to negotiate a resolution. It has also highlighted illegally seized land from Libya - around 39,000 km² of its EEZ - by Athens.

Conclusion

The EastMed pipeline agreement, a $7 to $10 billion project, is scheduled to be signed on January 2nd in Athens and will have serious ramifications for regional dynamics. The EastMed pipeline project comes with critical drawbacks, while questions regarding its financial viability remain. By neglecting Turkey, the EastMed pipeline has taken a more protracted and pricier route, costing up to $10 billion dollars to complete. This has added to the high price of the end product – another disadvantage. What gas will cost for Italy could be nearly 50% more than what it currently receives from Russian suppliers. This is in addition to the plethora of pipeline competition that the EastMed project will face.

Geopolitical issues represent significant obstacles to the project, such as the pipeline's prospective route passing through the maritime jurisdictions of non-signatories. Turkey has objected on the basis that it has equal rights to the resources in the Eastern Mediterranean region. They also signed an MoU with Libya increasing its clout in any future negotiations.

The big winner of these recent developments is Turkey. With one of the main objectives of the Energy Triangle being to undermine Turkish interests, Turkey's moves in Libya have boosted its leverage. The TNRC is also a winner as its energy security has been protected by its guarantor, Turkey. On the other hand, Egypt and Khalifa Haftar serve to lose the most from recent developments, with their interests in Libya having taken a hit after Turkey's involvement. For its part, Greece also serves to lose out due to its disregard of Turkey's interests and attempts to bypass its influence.

The EastMed pipeline agreement stands in a precarious position. The bleak outlook for its commercial viability entails that this project will struggle to get off the ground. Because the most economical route to European markets for Eastern Mediterranean gas is through Turkey, the obvious solution rests with good-faith engagement with Turkey and the TNRC. This would present a win-win outcome which would likewise be constructive in advancing the long-standing Cyprus issue. The agreement's signatories seem to be forecasting a smooth and profitable path ahead, however, without accounting for Turkish interests, this seems increasingly unlikely.

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