DISCUSSION PAPER

# Peace in Cyprus and Latent Tensions in the Eastern Mediterranean

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"[...] When I commenced the oil and gas venture, I knew deep in my heart that a new dimension would be added to the Cyprus Problem" Nicos Rolandis, Former Greek-Cypriot Minister (*see* Rolandis 2012).

"Is it really tolerable to let this tangle of issues linger unresolved? [...] I do not even want to get into the confrontation brewing over exploration and exploitation of Eastern Mediterranean hydrocarbons" Former UN. Special Adviser Javier Pérez de Cuéllar, (*cited in* Àlvaro de Soto 2012).

"The hydrocarbons issue has now been linked to the Cyprus Problem. Which way it has been linked is a matter for the two sides, but it cannot be unlinked. Now it is an argument, in my view a strong argument, for redoubling everyone's efforts to reach a solution" Former UN. Special Adviser Espen Barth Eide (*cited in* BRTK 2015).

# Introduction

## Natural Gas as a 'Catalyst for Peace'

From approximately late 2009 onwards, a further subject of controversy has become quickly and firmly incorporated into a pre-existing, long-standing, and seemingly intractable set of wider issues known as the 'Cyprus Problem'. To seasoned observers of this complex and historical question of identity, power-sharing, territory, security, geopolitics, the island's past as well as its future, it has been of no surprise that over the last decade or so, the process to explore and exploit offshore natural gas has mirrored the unsettled political divisions onshore[1]. In this sense, the 'natural gas issue' is not simply about natural gas as a commodity; it is about everything else it has been taken to mean vis-à-vis the network of issues that comprise the Cyprus Problem (see Crisis Group 2012). To apprehend this key insight lays the mental groundwork for attention to be diverted away from an epiphenomenon of the Cyprus Problem towards the resumption of negotiations and compromises necessary from all to achieve a bi-zonal, bi-communal, federation. Beyond the political divisions on the island, the situation in the Eastern Mediterranean region has become all the more tenuous due to a series of unilateral maritime boundary delimitations, as discussed in this TRT World discussion paper (Gafarli 2019).

Across the board, an over-riding facet of the peace process has been a stubborn insistence to seek recourse to external actors or developments that might sway the situation towards one or the other ideal scenarios harboured by

[1] In April 2015, former UN Special Adviser Barth Eide explained that: "the hydrocarbon crisis is in essence an illustration of the deep disagreements that lie behind the whole understanding of what the Cyprus Problem is. A lot of these issues are issues because of the division of the island, and will actually evaporate once a solution is found because they are expressions of the division". In contrast, in August 2019 the Greek-Cypriot Energy Minister Lakkotrypis expressed that there has "never been a link between the issue of hydrocarbons [...] and the process to reach a settlement of the Cyprus Problem" (Cyprus News Agency, 13/08/19). Mr. Lakkotrypis has been consistent in what seems to be an evidently inaccurate assertion.

each community[2-3]. It is in fact nothing new to seek an external development beyond the decades-long, intermittent, and evidently unsuccessful UN – sponsored negotiations (the very first formal negotiations between the Turkish-Cypriot and Greek-Cypriot communities having commenced in 1968)[4-5]. Testament to this enduring hallmark of the Cyprus Problem, Rusinow (1981, 2) recognised that a solution was unlikely because: "key individuals on each side appear to believe that developments on the other side or abroad will in time strengthen their own bargaining position"; a disposition strengthened further by "a subtle form of abdication of responsibility by all the parties" (ibid.). This subtle abdication of common responsibility for the Cyprus Problem often gives way to a convenient demonisation of Turkey as the sole antagonist from the Greek-Cypriot perspective. A non-resolution of the Cyprus Problem remains a pivotal and exploitable source of further tension as discussed in light of Saudi Araba's recent overtures (see Birgel 2019).

In this sense, what is referred to as the natural gas issue may be unique, but the principle of using the process as an external incentive or bargaining chip is not. In 2001, the-then Turkish-Cypriot leader Rauf Denktaş demanded a stake in oil discussions that had been initiated between Greek Administered Cyprus (officially known as the Republic of Cyprus or RoC), and Syria in 1998. Natural gas from Syria was to supply the Greek-Cypriot administration's domestic demand via subsea pipeline. Denktaş was concerned that the Greek-Cypriots would create a fait accompli that would exclude the Turkish-Cypriots and disincentivise compromises from the Greek-Cypriots. It would have been an affront to the Turkish Republic of Northern Cyprus' (TRNC) long-standing demand for political equality, and would have entrenched the power discrepancy between the TRNC and Greek-Cypriot administered RoC. Denktaş pressed that "the administration in the south, whatever it calls itself, does not have the right to sign a delineation agreement unilaterally", and that both the TRNC and Turkey should not be by-passed. He then predicted that the move would become "a new source of crisis in the region[6]".

What has occurred since has validated Denktaş' prediction. There has been a crude effort to use the natural gas exploration process and any potential proceeds from commercial exploitation as a tool of geopolitics[7]. The very need for a catalyst for peace in the first place is thought-provoking, and it is one largely rooted in both the relative comfort and peace of the status quo, and divergent views of how power should be shared in the future. Indeed, to assert that the "entire Cyprus Problem is essentially about power-sharing", as a former U.S. Ambassador stated to this author during doctoral fieldwork in 2015, is by no means an inaccurate simplification or exaggeration (see Birgel 2018). As partly evident in Denktaş' position, an issue of past, present, and future sovereignty in Cyprus, drives the current natural gas controversy.

2 The differences in the definition of peace are long-standing and well-recorded elsewhere, but boil down in essence to how power will be shared between the two communities; the balance of power between central government and the to-be constituent states that will form the federal republic.
3 The establishment of the original Republic of Cyprus in 1960 was itself a compromise, attested to by Xydis (1973) as a 'reluctant republic'.
4 See Richmond, O. (1999).
5 The controversial accession of the island to the European Union is an example of a failed catalyst for peace especially for those who argue that the accession process should have been bonded to the success of the peace process and subsequent island-wide referendum at the time.
6 Cyprus Mail (11/08/01)
7 Former Greek-Cypriot Leader Dimitris Christofias stated after the 2009 discovery of the Aphrodite natural gas field that: "The gas is a tool for peace and cooperation. [...] Peace and cooperation is not served by confederal or partitionist desires but only by the reunification of our country, which will enable the Turkish-Cypriots to benefit from the wealth that nature gave in our homeland". The trouble, however, has always been what kind of peace, what form of settlement, what balance of power? (Politis Newspaper 29/11/12).

# Setting the Scene: The Perennial Issue of Sovereignty

In 1963, the power-sharing mechanism established between the Turkish-Cypriot and Greek-Cypriot communities collapsed only three years after independence from the United Kingdom. This was followed by violent inter-communal conflict, unilateral attempts to unite the island with Greece, a right-wing Greek-Cypriot coup d'état in 1974, a Turkish intervention and subsequent geographical separation of the two communities that has since brought some semblance of peace. Since 1963, the Greek-Cypriots have held a monopoly of power over recognised government on the island. Crucially, UN Security Council Resolution 186 referred explicitly to the 'Government of Cyprus', failing to account for the Turkish-Cypriot community and their political agency as a whole, despite recent token gestures to the contrary. It is on this fateful reference that international recognition of the Greek-Cypriot dominated administration of the RoC as the internationally recognised government is based to this day[8]. The Greek-Cypriots have been described as being entrenched in 'legal formalism' (Jackson and Rosberg 1982), and jealously guard their guardianship of the sole de jure government on the island. Recognition has been described as the jewel in the Greek-Cypriot crown used to outmanoeuvre any attempt by the Turks and Turkish-Cypriots to secede (Hannay 2005), to wield as a weapon and reverse as far as possible the effects of the Turkish intervention, and to push through their own interpretation of peace. Recognition arguably represents the strongest remaining Greek-Cypriot bargaining chip in a zero-sum power game with Turkey and the Turkish-Cypriots. From the perspective of the Turkish-Cypriots, this is a form of 'lawfare'[9] where the Greek-Cypriots defeated militarily have taken their plight into the courtroom. As Former TRNC President Eroğlu stated, "[...] it is clear their intention is not to achieve a solution. Their intent is to use the internationally recognised RoC to punish us and Turkey"[10]. There is a systematic attempt to delegitimise the TRNC and its institutions for fear, however unfounded, of implicit recognition 'through the back door', and to make the status-quo hurt for the TRNC (see Constantinou 2010).

Amidst this all, and as per official rhetoric, the Greek-Cypriots seek to export more than natural gas. From the initial discovery of the Aphrodite field in late 2009 onwards, the Greek-Cypriot government's official position has advocated that the natural gas development process would lead to one or more of the following: (1) the Greek-Cypriot government will 'export energy security' to Europe/the EU, (2) in a more nuanced manner, the island's resources will constitute "an alternative source of supply and route of energy for the European Union, [...] contributing to the Union's much sought after security of supply and diversification of sources and routes" (cited in South EU Summit 2018), (3) the island will become a regional 'energy hub', (4) the natural gas development process will serve as a 'catalyst for peace', and finally, (5) commercial exploitation of gas will promote regional synergies and diplomatic alliances and security in the immediate region, all of which are seen as deliberate moves to ostracise Turkey and the TRNC (see Hacaolgu 2019). Turkey and the TRNC see a pressure campaign afoot with the ultimate aim of forcing concessions vis-à-vis the Cyprus Problem.

8 See Drousiotis, M. (2008).
9 See Hughes-Wilson, J. (2011).
10 Phileleftheros Newspaper, (17/10/14).

Overall, the natural gas issue has had an overwhelmingly negative effect on the settlement talks. Partly due to the sheer scale of the commodity industry involved, the various international stakeholders and states implicated, and the complex and controversial relationship popularised between energy/natural resources and geopolitics, the dispute has expanded to the extent that its abatement has been considered a precondition to resume the settlement talks[11]. This demonstrates just how significant the issue has become. In late 2015, the Greek-Cypriot President unilaterally abandoned the settlement talks in protest against Turkey's earlier response (both on behalf of the Turkish-Cypriots and its own maritime claims in region), to unilateral Greek-Cypriot endeavours and the appropriation of natural gas as a tool to enforce peace on its terms. Negotiations resumed in 2016 as a 'window of opportunity' emerged when commercial exploration and exploitation activities coincidentally paused, the incendiary political rhetoric of the time subdued, and the public passionate dispute found momentary respite. By June 2017, the peace process had again collapsed whilst the natural gas development process (and the regional tensions associated with it), gained traction. Tensions have been particularly fraught as of late due to the non-recommencement of the talks, tensions between Turkey and its partners over other regional developments such as the Syrian Civil War, and the maritime delimitation agreement signed between Turkey and the U.N-recognised government in Libya. In early 2018, the 'Cuttlefish' prospect to be drilled by an ENI-KOGAS consortium in Block 3 of the Greek-Cypriot's EEZ was reportedly obstructed by Turkish vessels (Daily Sabah 2018). A more vociferous condemnation emerged from the EU, with the threat of staggered sanctions against Turkey. The Turkish government has recently declared its intention to procure a third drillship, and that five new wells would be drilled in 2020 (Kıbrıs Postası 2019). In light of the seemingly causal relationship between the two processes, the following section delves deeper into the nature of the association envisaged between natural gas development and the settlement talks, and, beyond issues of sovereignty, critiques the logic of 'energy dependence' behind the rhetoric.

# Energy Architectures and the Problem of Energy Dependence

Before any discussion of natural gas can take place, it is important to remember that whatever the configuration of potential pathways to development, what matters from the geopolitical perspective and what is relevant to the peace process is how these arrangements are infused with geopolitical potential. In other words, is not necessarily a particular pipeline per se (such as the much-hyped 'East Med' pipeline), but rather the geopolitical value a development is believed to have that drives controversy. Figure 1 from the Centre for Strategic & International Studies (CSIS) dated July 2019, depicts the natural gas discoveries made in the region thus-far, alongside overlapping maritime boundary claims, as well as the positions of the Turkish Fatih and Yavuz drill ships and the RV Barbaros Hayreddin Paşa exploration vessel. The map illustrates overlapping licensing blocks between the Turkish-Cypriots and Greek-Cypriots, but also the contending continental shelf claims between Turkey and Greece, and finally the Exclusive Economic Zone (EEZ) declared across

[11] This had been the message given by Greek-Cypriot leader Nicos Anastasiadis at the Berlin meeting in November 2019.
[12] An agreement between the RoC and Lebanon exists but remains unratified.

the entire island by the Greek-Cypriots. The latter ratified bilateral delimitation agreements with Egypt and Israel in 2003 and 2010 respectively[12]. Figure 2 from Bloomberg provides a representation of proposed pipelines such as the 'East Med' pipeline, as well as existing LNG-export facilities in Egypt. The map also shows a potential pipeline that could be established to take Israeli and Greek-Cypriot natural gas to Turkey, although significant political hurdles need to be overcome before the idea is entertained again as it once was (Ünal 2015). 'Energy architecture'[13] refers to the various geographical arrangements of energy infrastructures and desired development pathways, such as pipelines, LNG import/export terminals, etc.

There have been a number of different development pathways considered by the Greek-Cypriots: (1) a Liquified Natural Gas (LNG) terminal for the island (often touted as the best-case scenario for the Greek-Cypriots to become more relevant upon a global, rather than regional, geopolitical stage), (2) a Floating Production, Storage and Offloading (FPSO) unit, (3) a system of pipelines that combines with other regional discoveries offshore Egypt and Israel that then might be re-exported from existing Egyptian LNG terminals, (4) the 'East Med' pipeline; a sub-sea pipeline across the Eastern Mediterranean to a landing point in Europe, (5) a Compressed Natural Gas (CNG) solution. Cyclical, structural, and regulatory changes within the global

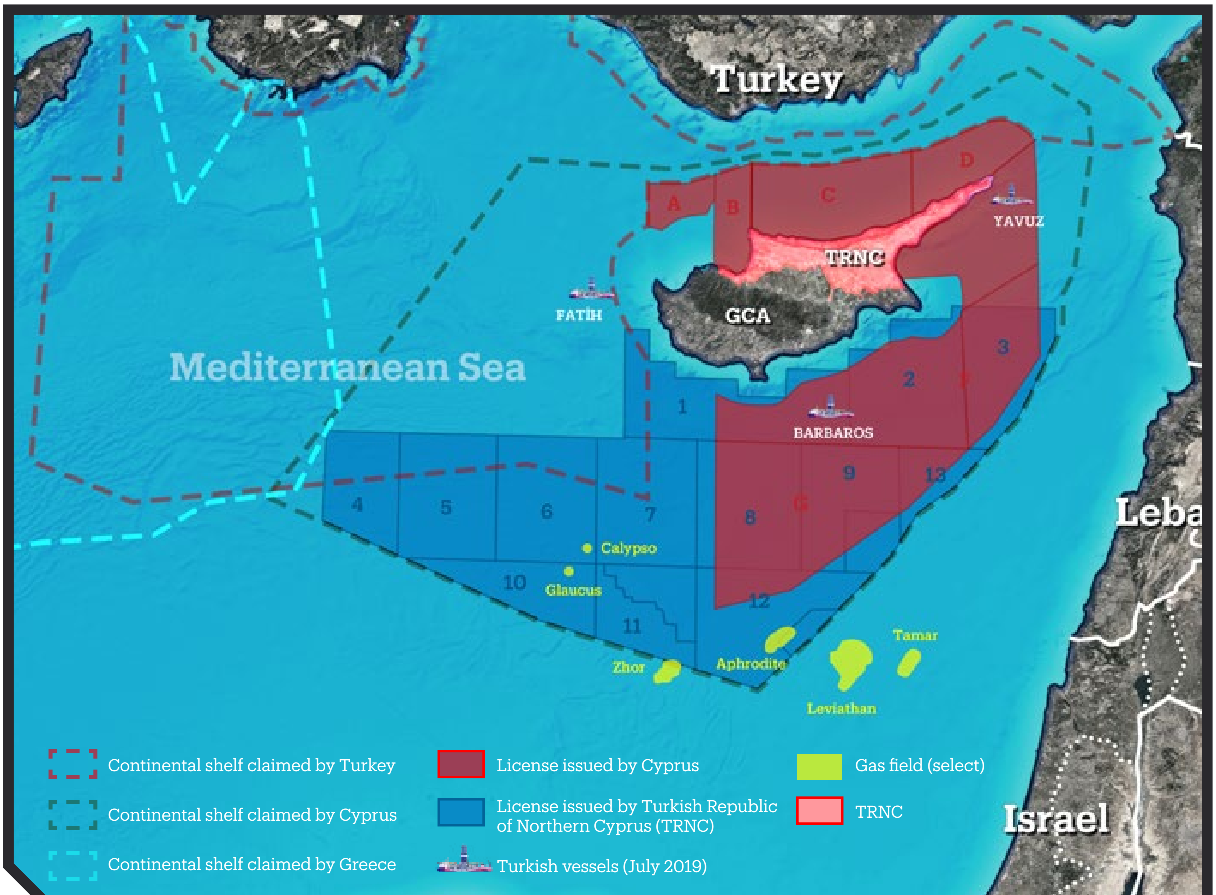


***Figure 1:*** *Discoveries, Drill Ships, and Maritime Boundaries* — *Source: CSIS 2019*

[13] Hillman (2019) provides a detailed report on the nature of the association perceived between energy infrastructure and political influence.

natural gas industry, as well as new discoveries, can make it such that any particular pathway may seem the most attractive or the closest to fruition at a particular point in time. Though there are development plans to bring natural gas to the surface at the Aphrodite field, no single Greek-Cypriot prospect is large enough to warrant economic exploitation on its own right, in the vein of the 'supergiant' Zohr natural gas field discovered in 2015 in the Egyptian EEZ, south of the EEZ demarcation line with the RoC. The trouble with the Aphrodite field is not only the small volume of natural gas ascertained to exist (4.1 tcf), but also that a portion of the field extends across into Israel's EEZ boundary agreed between Israel and the Greek-Cypriots in 2011[14].

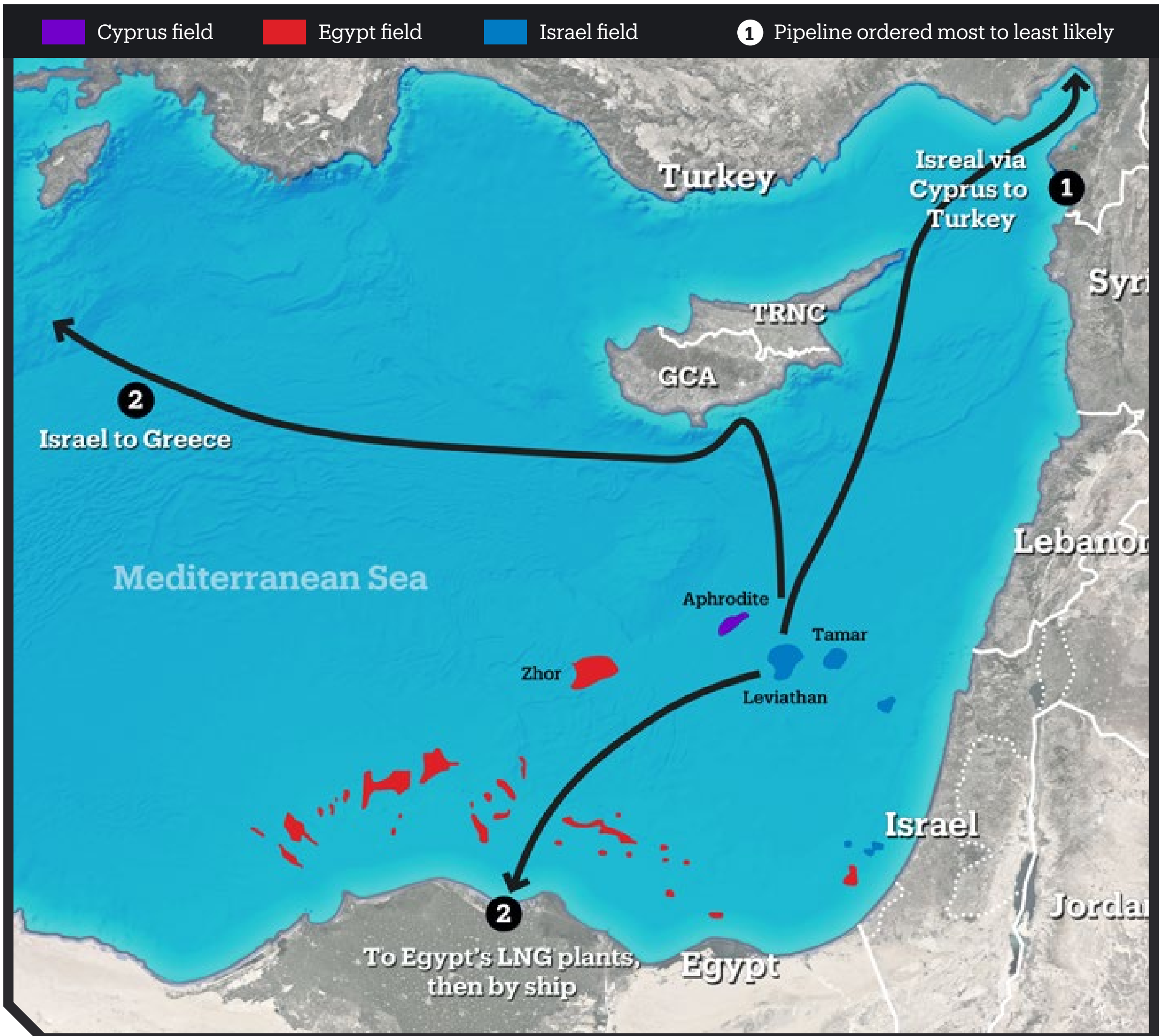


***Figure 2:** Possible Routes to Europe and Beyond*

*Source: Bloomberg 2018*

14 The issue remains an unresolved but quiet source of disagreement that has complicated the exploitation of the Aphrodite field. The Greek-Cypriot Energy Minister has recently signalled an intention to continue regardless, and to compensate the Israeli-side accordingly if necessary.

In any case, devoid of a final investment decision, proposed pipelines and development pathways remain exactly that: highly inflated propositions thought to determine future geopolitical relationships or the alter a balance of power. As argued throughout this paper, it is what certain energy architectures are envisioned to do that has driven tension in the region. It remains that the deterministic nature of the relationship touted to exist between natural resource development and geopolitical futures is helplessly reductive, highly problematic, and rarely fulfils the promises it offers. Still, the wider architecture of energy the Greek-Cypriots wish to find themselves at the centre of is viewed as a tool of geopolitics; a web of economic interest from which the Greek-Cypriots could hope to rouse even further support for their cause at the expense of Turkey and the Turkish-Cypriots. Greek-Cypriot leverage or influence on the geopolitical stage and vis-à-vis the peace process is envisioned to flow through its energy architecture. The rhetoric bears a lot of the same geopolitical apprehensions and now-traditional energy security rationales that have raised controversy in the European energy security debate (see Ladislaw and Tsafos 2019).

But there is a problem with the logic of energy 'dependence'. Pipeline capacity does not determine pipeline flow. For liberalised markets in particular, pipeline flows themselves heed market realities, unless a premium is to be paid otherwise. Thus, any potential political leverage to be extracted by the Greek-Cypriots if and when natural gas is sold to Europe must face both market realities and the efforts the EU has itself implemented to mitigate any status of 'dependence', as codified in the EU's Third Energy Package. The latter demonstrates the role that government subsidies and legislation in terms of the desired pattern of natural gas infrastructure. Otherwise, inter-government agreements such as those between Israel-Egypt-Greece-and the Greek-Cypriots are, without commercial justification, inflammatory displays of rhetoric that belie a nuanced appreciation of the global natural gas industry and the myriad of moving pieces within it. Instead, the sheer intensity of rhetoric has it that the 'East Med' pipeline, for instance, is a matter of time or political will instead of commercial reality. There may even be opposing points of view between these actors, such as Egypt's insistence on becoming an export hub for LNG (see Tzanetakou 2019), Israel's development of its 'Leviathan' field with a view to supply the Egyptian domestic market (Coren 2019), and a possible natural gas pipeline between Israel and Turkey once touted when the two had been on better terms (although any proposed pipeline would still have to traverse the Greek-Cypriot EEZ). Greek-Cypriot authorities need only be informed that construction of a pipeline is to take place (see Wainer 2017), as EEZ's are not exclusive sovereign territory in exactly the same way that say a territorial sea is (Cyprus Mail 2015). Finally, the role of Turkey as a burgeoning natural gas market itself, as well as key natural gas transit country to South-East Europe, is a perspective that cannot be brushed aside (see Erşen 2019), especially in light of recent developments such as the TurkStream pipeline (see Tsafos 2018b). In a rare break in years the 'East Med' pipeline rhetoric thus far, Italian Foreign Minister Di Maio publicly doubted the long-term feasibility of the plan (Anadolu Agency 2019).

This leads to a second point with regards to the energy dependency. Even if it were the case that wholesale dependence existed by the EU upon a single source at a point in time, so long as future options remain open in an ever-competitive global market and ever-integrated European gas system with an increased capacity to absorb LNG from around the world, then dependence becomes a tenuous state of affairs. This means that the notion of dependence loses much of its geopolitical value that the Greek-Cypriot side may have wanted to extract so as to draw Europe in front of an inevitable Turkish reaction. The Greek-Cypriots may 'enhance' European energy security at a particular junction for a period of time, but this is a far cry from wishes for an indefinite and critical bond that conditions all geopolitical calculations and the peace process on the island. Structurally even, the ability for a country to import LNG does not automatically and indefinitely remove a particular country from the global equation. There is simply more to geopolitics than market share dynamics[15], even in a Trumpian-era heavily denoted by the use economic sanctions. Finally, dependence is far too often and misleadingly touted as one-way[16]. For example, popular rhetoric suggests that Europe might become dependent upon Russian pipeline gas, but equally for Russia, access to the European market is pivotal as well. Unfortunately, suggestions that the island's offshore natural gas should run through Turkey which, in a similar vein to more banal and innocuous efforts to foster cooperation and compromise, often run into two pernicious dictums of the settlement talks: solve the Cyprus Problem first, then cooperation can take place (Hocknell 1998) and 'nothing is agreed until everything is agreed' (see Morelli 2019). Both of these conditions are wedded to three major characteristics of the peace process: a tendency to barter between elements of the Cyprus Problem such as territory, security, and natural gas, an inclination to wait until more favourable developments to negotiate under, and the view of peace as final package deal rather than a step-by-step process.

TRNC Foreign Minister Kudret Özersay has recently insisted that non-recognition of the TRNC need not necessarily inhibit cooperation (TRNC PIO 2019). In tandem, the idea of a joint oversight committee and/or guarantees to share equitably any potential revenue that would embody the kind of cooperation needed today on the way towards a sustainable bi-zonal, bi-communal federation in the future has, due to the latent paradox of non-cooperation, been consistently rejected by the Greek-Cypriots who are wary of any recognition of TRNC authorities that may then be used to crystallise the status-quo instead of the wide-ranging change the Greek-Cypriots seek. There is then a pathology of suspicion and adversity that leads to the zero-sum mind-set. The predominant Greek-Cypriot view of a potential pipeline from the Levantine Basin to Turkey also displays an apprehension of possible 'dependence' on Turkey. It is in the Greek-Cypriot interest to potentially enhance at most Europe's energy security through the exploitation of the island's resources, but an anathema to place Turkey in a position where it could possibly 'turn off the taps' to extract concessions from the Greek-Cypriots itself. However, an equally legitimate view is that such a pipeline would increase the opportunity cost of war and helps to sow the seeds of the kind of economic partnership that deters future tensions in the region. This is but one example of the sort of regional win-win pipeline scenario that must be advocated, as has also been suggested for Israel to improve relations with its Arab neighbours, rather than commit to the more grandiose 'East Med' pipeline to Europe (Wolfrum 2019). It remains that commercial interest rather than solely political desire will decide how natural gas will be exploited. This is yet another reason why the process or proceeds from natural gas exploitation should not be infused with grand geopolitical expectations, a point that leads into the next part of the discussion.

15 See Tsafos, N. (2016).
16 Rather than the energy security of Europe in perilous danger, Russia itself depends on oil and gas exports for a significant chunk of its federal budget revenue. Hence, there is an air of mutual dependence that can either serve to mitigate tensions or compromise those who wish to act in a more unilateral manner.

# External Incentives from an Uncertain Industry

The purpose of this section is to critique the commodity determinism that is alluded to in political rhetoric by highlighting how uncertain and complex the global natural gas industry is. From the theoretical perspective, with each step taken toward natural gas development in conjunction with the ever-increasing stakes in terms of projected future wealth and the potential geopolitical benefits assumed to exist, the more attention natural gas has gone on to attract, especially as the peace process has floundered seemingly in step. The effect has been the inflation of natural gas' material agency to be a catalyst for peace. The mere belief that natural gas development will be a game changer has been enough for the controversy to emerge. This leads not only to commodity fetishism, but sears further an almost deterministic relationship between natural resources and geopolitics. In practice, reliance on potential proceeds from an uncertain future represents a dubious basis to present as an incentive. Any forward-looking statements regarding the island's offshore natural gas resources discovered so far must consider the nature of and future projections for an ever-more interconnected global natural gas industry. The natural gas industry is the sum of many moving parts: cyclical (supply and demand dynamics, access to capital, downturn and upsurge of oil and natural prices), and structural (maturing markets, emerging markets, the use of alternative resources such as coal or renewables, and other natural gas exploitation technologies such as CNG or FLNG. Other key variables include: recoverability rates, production volumes and storage levels, economic growth and demand levels, weather variations, geopolitical premiums, evolving pricing mechanisms and the operation of various portfolio members themselves, Russian and other major supplier reaction curves, regulation and resultant competition with other fuels in a nation's energy mix such as coal, oil, and renewables. The industry is capital intensive; a great deal of trust is required amongst a spectrum of different actors together with long-term assurance the natural gas will be there to be developed before either pre-sold and/or competitive in the LNG spot market, which now accounts for nearly a quarter of global LNG trade (IEA 2019). There is no single global gas market in the fullest sense of the term. Instead, there are widely ranging regional prices with hosts of heterogeneous feedback mechanisms between both upstream and downstream elements of the industry. For LNG, there are issues of: liquefaction, shipping, regasification, and the propensity for a specific energy market such as Europe (and Egypt as had previously been identified as a potential market, and is set to re-emerge as an LNG exporter). Stock levels, storage capacity, pipeline and regasification capacities (which do not necessarily determine flows), export terminals, shipping capacities, climate variation, as well as policy guidelines, regulations, and targets for natural gas development, all coalesce to add the kind of complexity that does not allow a single development such a new pipeline or project to unimaginably alter the system as a whole or affect the industry in a predictably linear fashion. Perhaps political rhetoric cannot afford to incorporate the plethora of contingencies at play. If uncertainty is acknowledged, then political leaders cannot make assured statements about what will definitely happen. This then means that the use of natural gas a tool for geopolitics becomes more dubious, and so loses its potency as a worrying game-changing development.

As a target market for the Greek-Cypriots, production of primary energy in the EU is decreasing, whilst gas import requirements particularly of north-western Europe are increasing. Further qualification is needed in realms such as the security of price or the quality of demand; do recent uptakes in gas imports spell unfettered year-on-year absolute or relative increases, or is the picture more complicated? How significant is the subsidisation of gas prices in the emerging regions of the world set to drive global natural gas consumption, and how sustainable are these policies? This is of particular concern if Cyprus' natural gas is to find its way to regional domestic markets such as Egypt, or rerouted otherwise through Egypt's LNG facilities elsewhere. In line with projected demand is a state of oversupply. A natural gas glut has been predicted for some time, beyond the previous supply boom from 2011 to 2014. Amongst the various assessments of the future of natural gas and in particular the LNG trade (the most expensive form of gas supply (S&P Global Platts)), the long-awaited natural gas glut seems to have taken hold (Tsafos 2019a). The OIES (2019) documents a rapid decline in spot LNG prices in both Europe and Asia, borne from a growing glut of LNG supply and a recent decline in import growth in Asia and elsewhere. 2019 was set to be a record year for final investment decisions for new LNG supply (Tsafos, 2019b). Spot LNG prices in Asia have fallen to less than half of what they were in 2018. If in a state of oversupply, this in time may then be the precursor to cyclical and structural changes that lead to a higher-price scenario in the future, so long as demand and global growth responds in kind, and if export capacity gradually plateaus. At times when concerns over security of supply reign, marketers of the resource in question can become more emboldened in tight-market episodes with the construction of more LNG import terminals[17]. In a buyer's market, demand security is as important as security of supply. In the long run, U.S energy is slated to become more competitive worldwide. Amidst the LNG glut, U.S exports to Europe can sustain price pressure over the long-term. If the Greek-Cypriot target market encompasses the European continent, and if LNG is set to be a more global commodity in the sense that price differentials are less subject to regional factors (such as hub pricing mechanisms), then natural gas from the Eastern Mediterranean may have to compete against a broader set of market forces including that of U.S LNG in the medium term, amongst others.

Price is the pivotal decision factor, and the financing of gas production is based on future price expectations (Goldwyn 2014). Pricing mechanisms have traditionally been dominated by long-term contracts indexed to oil. However, the world is witnessing the emergence of a patchwork of regional pricing mechanisms including regional gas-on-gas competition, long-term futures contracts with destination flexibility and spot-market trade (the former of which continues to underpin new upstream projects, perhaps in response to latent gas price volatilities). This means that global oil prices may not be an accurate proxy for gas prices as before (Tsafos 2018a). This complicates the outlook further, meaning that the appetite for risk must be higher for the companies involved. The balance between return on investment and security of supply must be struck, which boils down to both macroeconomic factors and the interplay between the specific actors involved. As a rule of thumb, in periods where natural gas gluts are predicted the development of Cyprus' offshore natural gas seems to be an ever-distant prospect. In the shorter-term, oversupply is likely to depress prices. This is a pivotal factor for the future of Eastern Mediterranean gas. Available forecasts estimate the price of gas in Europe to average about $6.50/MMBtu in the ten-year period to 2030 (Lebanon Gas News 2019). The asking price for Eastern Mediterranean gas is more expensive, with reports of the Production Sharing Agreement (PSA) for the Aphrodite field partners requiring a price of $4.5/MMBtu at the platform, that is, to bring the gas surface alone (Ellinas 2018).

Currently, European natural gas imports are projected to increase in the spectre of its growing primary energy demand, the decline of domestic production, the expiration of existing long-term contracts, and the envisaged retirement of coal and nuclear plants. The currently under-utilised regasification capacity of

[17] As an aside, although the Greek-Cypriot government has envisioned itself a future LNG exporter since 2009, it seems the island will see its first LNG import terminal in 2021.

the European continent suggests that Europe is well-equipped to accept higher volumes of cheaper LNG exports sources from around the world. Import capacity and downstream infrastructure may continue to be developed to instil security of demand as gas market completion intensifies worldwide. As it stands, Turkey is currently the second-largest LNG market in Europe (Daily Sabah 2019, and cumulatively from February 2016 through to November 2019 the fourth largest U.S. LNG importer from Europe (U.S Department of Energy 2020) . There are indications that the Greek-Cypriot government is progressing in its bid to route Aphrodite gas to Egypt's LNG terminals (Ellinas 2019). If the Greek-Cypriot government discovers more gas then the commercial case for an LNG export facility may improve. In turn, this could mean that there would be less need for further regional synergy say in the form of the inclusion of Israeli gas as part of an alternative development pathway. LNG demand is typically strong in Asia, and it is likely that natural gas from the Levantine Basin could be contracted or traded as spot to end up in Asia rather than Europe. This would mean that the Greek-Cypriot desire to raise their geopolitical clout as an 'exporter of energy security to Europe' would become a more distant ideal. Ultimately, much depends on how complex relations of supply and demand unfold across Europe, Asia, and elsewhere. If the global natural gas industry is to expand as predicted, and if the LNG trade will continue to scale and intensify with other emerging LNG suppliers (such as Australia and Qatar), then the major LNG export companies of the world might find themselves in a far better position to absorb the cost of large-scale LNG infrastructure projects such as that desired by the Greek-Cypriots. Still, if the global market is plighted by relative periods of LNG oversupply (particularly in light of intensified U.S exports), then there will be limited profit potential on the export side in an environment of suppressed and lower-for-longer prices. This may have a negative bearing on the development of new greenfield sites, although exactly how the major companies of the world will respond to increased competitiveness will surely vary – perhaps more opportunistically rather than a clear future strategy. The inherent uncertainty of the global natural gas industry and the problematic and seemingly outdated logic of energy dependence, as well as the spirit in which such developments are sought to be used for geopolitical gain, suggests that attention should be diverted back to the peace process, as the follow section asserts.

# 'Cypriot' Owned and Led or Natural Gas Owned and Led?

The Cyprus Problem has a dual nature. The formal settlement talks offer an all-encompassing deal that will establish a revised political system and power-sharing mechanism. The U.N-sponsored negotiations based on comprehensive changes to the status-quo have been unsuccessful. In contrast, small-scale confidence-building measures beyond the official talks have been more successful. For the Greek-Cypriots, the natural gas issue is to feature in neither track, nor is the issue to be associated in any shape or form with the peace process. In 2007, a Greek-Cypriot government spokesman asserted that "[...] we will not be hauled into a public debate over an issue which solely concerns the lawful government of the Republic of Cyprus, and in which neither Turkey nor the illegal regime has any say. We assess Turkey's threats as unjustified, and the reaction of the incorrigible troublemaker of the region as unfounded" (Daly 2007). The reality has gone on to be exactly what the Greek-Cypriot spokesman had denied, no less so due to the Greek-Cypriot's own insistence to weaponise natural resources as a geopolitical tool. More so, an ahistorical dualism is often at play where one side is crystallised as the perfect victim while the other becomes forever the perfect aggressor. There is a fear that the effective participation of the Turkish-Cypriots may somehow stall or complicate the process and again reduce incentives for a settlement, and that the Turkish-Cypriots will not be forced to compromise as much on issues such as territory, power, and population. This leads to accusations of unilateralism on the part of the Greek-Cypriots, which again, pending a solution to the Cyprus Problem, seems almost unavoidable as Turkey does not recognise the Greek-Cypriot government and both sides have declared overlapping maritime jurisdiction zones irrespective of each other. The more that Turkey and the Greek-Cypriot administration talk past each other, and the more that international actors look past the island's history and support unequivocally the Greek-Cypriots, then it is hard to see how tensions could possibly abate. The more the EU fails to sympathise with the challenges that Turkey faces, the more belligerent Turkey is seen, and the more the situation can be capitalised by those who may wish to steer Turkey away from EU membership indefinitely. Turkey, however, is not to be feared but to be understood. The more the political division on the island can be compartmentalised, the greater the chance that progress can be made.

Finally, Rusinow asserted that the "emotive interests, and deep-seated mutual distrust and fear are the most 'real' and hard to reconcile" (1981, 15). It is the fear, suspicion, and double-guessing of the intentions of the other side past, present, and future that leads to the cutthroat legal formalism of the Greek-Cypriots, or the persistent desire of the Turkish-Cypriots to be treated as political equals with effective political agency, as opposed to becoming an impotent minority. The anticipation of favourable developments to swing a solution one way or the other is a product of this fear, and what it does is defers responsibility for the peace process from where it should always lie; between the Turkish-Cypriots and Greek-Cypriots themselves. This leads to a paradox. The parties to the dispute have repeatedly emphasised over the years that the peace process must be 'Cypriot owned and led', but for all intents and purposes, the talks in recent times have largely been natural gas owned and led. Until more favourable conditions occur, how much longer will the compromises necessary for a mutually acceptable agreement be ignored? Could the comfortable nature of the status-quo be the most obvious foundation to build-upon, rather than comprehensive change catalysed by future natural resource development or a short-sighted pressure campaign on Turkey? With the

1977-1979 High-Level agreements, the then-leaders of the communities established the bi-zonal federation as the model for a solution, and made clear that a unitary system could not be (see De Soto 2012). But this must come naturally; never enforced or enticed, or continuously deferred with the hope that the Turkish-Cypriots and Turkey are found in a position of weakness.

Could there be a further problem with the process itself as it envisages peace as an endpoint on an ever-distant horizon, rather a continual and pragmatic process that demands Greek-Cypriot and Turkish-Cypriot cooperation? Surely this would allay the worst fears of the communities and build the relationships necessary without large-scale upheaval – unless upheaval is desired. Without an honest, critical, and humble appreciation of the drivers behind the natural gas issue as an epiphenomenon, then diplomacy is liable to continue to fail. Historical and empathetic criticism is needed that nullifies the fear of the 'Other', unless that fear is intentionally promoted. Provided that the forces of antagonism within the inhabitants of the island themselves can be kept at bay, then there can be a natural progression toward a more unified system. Perhaps the most profound question to ask is why an incentive for peace is required in the first place? Is the conflict comfortable to the extent that neither side is willing to make the seemingly painful compromises? The establishment of a federation is often seen as an endpoint for the peace process in Cyprus. Yet, a sustainable peace that incorporates the concerns of both Turkish-Cypriots and Greek-Cypriots and establishes the necessary political equality between them is in the interest for all Cypriots, but also a necessity for the prevention of future tension with regional neighbours in the long-term. In this sense, commodity determinism must be avoided, and attention must be diverted to where it is really needed; compromises on the core issues of the Cyprus Problem. For this to happen at all, alternative win-win scenarios must be developed that are aided by a recognition of the shared historical responsibility for the Cyprus Problem, alongside the necessary public preparation required for both communities to share power and prosperity in the future[18].

[18] Former UN Special Representative Lord Hannay once asserted: "The real obstacle, however, is that the leaders of both sides in Cyprus are not preparing and will not for the moment prepare their communities for a settlement which needs to be based on compromise. That was what went on in 2003 and 2004. On the Greek Cypriot side in particular, there had been no preparation of public opinion at all. Public opinion had been fed for the past 35 years on an unadulterated diet of Greek Cypriot maximalist claims. Not surprisingly, it proved impossible to turn them round on a sixpence when the Annan plan was produced. It will be the same again if the leaders cannot bring themselves to prepare their communities for the sort of compromises that will need to be made" (UK Parliament 2014).

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