An Israel–Turkey Natural Gas Pipeline: inter-connection of commercial and geopolitical logic

MATTHEW J. BRYZA

The export of natural gas from Israel's Leviathan field, the world's largest discovery during the past decade, could have a significant and positive geopolitical impact on the Middle East. A pipeline connecting Leviathan to the Turkish market, the most commercially efficient export option, could help resurrect a strategic partnership dedicated to regional prosperity and stability between Israel and Turkey.

Such a pipeline could, if coupled with political will and diplomatic deftness, also help Cyprus finance a liquefaction facility to export its own significant natural gas reserves from its offshore Aphrodite field. These optimistic scenarios require political breakthroughs that seem out of reach today. However, a modest amount of political re-alignment could enable their realization, which could then catalyse new political momentum toward a negotiated Cyprus settlement and broader stability in the Middle East.

Historic Relationships Between Israel and Turkey

Israel and Turkey have a long history of partnership, though with periodic ups and downs. In 1949, Turkey became the first Muslim-majority country to recognize the state of Israel. Tensions emerged between the two countries during the Six Day War in 1967 and again following Israel's annexation of East Jerusalem in 1980. But Israel–Turkey relations got back on track each time, reaching a zenith in the late 1990s when both countries acknowledged the existence of their strategic partnership based on military and intelligence cooperation.

Relations between Israel and Turkey have also waxed and waned over the past decade, during the government of Prime Minister Recep Tayyip Erdogan and his Justice and Development Party (AKP).

Initially, Erdogan pursued a pragmatic approach toward Israel. On a visit to Jerusalem in 2005, Erdogan laid a wreath at the Yad Vashem Holocaust memorial, called anti-Semitism 'a crime against humanity', and dubbed Iran's nuclear ambitions 'a threat to (the) entire world'. In 2006, Turkey led efforts to establish a Palestine–Israel industrial park, while Israel's President Shimon Peres visited Turkey (and did so again the following year). Israel–Turkey relations began to deteriorate in late 2008, when Israel moved troops into Gaza at the very moment Ankara believed it was on the verge of negotiating a breakthrough in Israel–Syria relations. Feeling diplomatically betrayed, Erdogan erupted in anger before a packed audience at the World Economic Forum in Davos in January 2009, accusing Peres of being a 'killer', and then storming off the stage.

'… the most promising export options for East Mediterranean gas are an Israel–Turkey pipeline (the cheapest route) and a liquefaction facility on Cyprus (which provides the greatest marketing flexibility).'

The *Mavi Marmora* Incident

Relations continued to sour into 2010 when, on 31 May, a flotilla of boats carrying protestors from several countries, led by a Turkish passenger ferry the *Mavi Marmara*, decided to break through what they termed Israel's blockade of Gaza. Israeli commandos intercepted and boarded the *Mavi Marmara*, leading to an armed struggle in which nine passengers were killed, eight of whom were Turkish citizens. The *Mavi Marmara* incident resulted in the breakdown of Israel–Turkey relations, with each country withdrawing its ambassador.

More recently, both countries have hinted at their willingness to put the *Mavi Marmara* incident behind them. On 22 March 2013, Israel's Prime Minister Netanyahu apologized for the deaths of the *Mavi Marmara* passengers during a phone call with Prime Minister Erdogan (brokered by US President Obama). Two rounds of official negotiations on compensation followed in April and May. The normalization process appeared stalled as of July 2013; tension increased with statements by some senior Turkish politicians attacking Israel (as well as the international Jewish community) for Palestinian deprivation in Gaza and for provoking major protests across Turkey in June 2013 over government plans to replace Istanbul's Gezi Park with a shopping mall. Still, senior officials in both countries continued privately to signal their desire to reinvigorate bilateral relations, with a natural gas pipeline potentially at the centre of the process.

Hope for the Future: Israel–Turkey Pipeline

If Ankara and Jerusalem can weather this latest political storm and finalize their diplomatic normalization, an Israel–Turkey pipeline would provide a critical tool to deepen this reconciliation into a renewed strategic partnership. Israel has already taken a major conciliatory step in Netanyahu's apology for the *Mavi Marmara* deaths. Ankara's two remaining criteria for normalizing relations are compensation for the families of those killed on the *Mavi Marmara* and the end of Israel's 'blockade' of Gaza. If diplomats from both countries can negotiate understandings on these two issues, their top political leaders will likely embrace an Israel–Turkey gas pipeline as a way to turn words into concrete elements of a new strategic partnership. The geopolitical significance of such a partnership – between the Middle East's only Muslim-majority country with a secular democracy and the world's only Jewish state – would be enormous.

Regardless of geopolitical benefits, an Israel–Turkey natural gas pipeline will be realized only if private companies decide to invest in it. Private investors will indeed probably favour such a pipeline, since it would provide the most commercially competitive way to export Israel's gas from Leviathan. According to feasibility studies conducted by the Turkish energy company Turcas Enerji Holding (on whose board the author serves), capital expenditures (CAPEX) of $2.5bn would be required to construct a 470 km subsea pipeline from Israel to Turkey. The pipeline would consist of twin 24-inch lines, each pumping up to 8 bcm of gas per annum, for a total of 16 bcm. The twin pipelines would run from the Leviathan field through Israeli waters, then across Cyprus's continental shelf into Turkish territorial waters, landing onshore at either Ceyhan or Mersin on Turkey's eastern Mediterranean coast. An additional $83 million would be required to build a 40 km pipeline on land to connect the landfall at Ceyhan to the Turkish national gas grid.

More ambitious plans to integrate Leviathan gas into the EU-supported Southern Corridor project (which will initially connect Azerbaijan with markets in Turkey and the EU), would require either: $647mn for a 470 km connection from Ceyhan to the Trans Anatolian Natural Gas Pipeline Project (TANAP); or $1.93bn for a 1,215 km pipeline from Ceyhan to the start of the Trans-Adriatic Pipeline (TAP) on the Turkey–Greece border, for a total of $4.4bn to connect Leviathan gas directly with the EU.

Other Options for Exports of Leviathan Gas

The CAPEX estimate for even this maximalist export of 16 bcm from Israel to the EU is considerably lower than estimates for the three other options that are under serious consideration by the Israeli government and the private companies leading development of the Leviathan field – Israel's Delek and the US company Noble Energy.

Floating LNG in Israeli waters: IN FAVOUR – provides maximal marketing flexibility, allowing Leviathan gas to reach Asia's higher priced markets; allows Israeli government to maintain physical control over export facility; avoids politically contentious permits for a land-based liquefaction terminal in Israel. AGAINST – no floating liquefaction facility has yet been deployed, with the world's first example, Shell's Prelude project, now under development for Western Australia; both CAPEX (see below) and operational expenses (OPEX) are estimated at more than three times those of an Israel–Turkey pipeline. Estimated CAPEX: $7 bn to $9 bn.

LNG onshore in Cyprus: IN FAVOUR – provides the same maximal marketing flexibility and avoidance of contentious permitting as does floating LNG. AGAINST – denies Israeli government physical control over gas export facility; will require a decade or longer to develop; difficult to finance without revenue from early gas exports, (which an Israel–Turkey pipeline would generate). Estimated CAPEX: $4.5 bn to $6 bn.

Pipeline to Cyprus, Crete, and mainland Greece: IN FAVOUR: provides direct access to EU market; avoids potentially contentious Turkey–Cyprus debate over access to the Cypriot continental shelf (see below in relation to Israel–Turkey pipeline). AGAINST – prohibitively expensive. Estimated CAPEX: $11 bn to $14 bn.

In theory, onshore LNG terminals in Israel and Egypt could provide additional export options for Leviathan gas. In practice, however, liquefaction facilities onshore in Israel, either on the Mediterranean Sea or at Eilat on the Red Sea, are unlikely to secure governmental permits due to environmental and security concerns. As for Egypt, it is politically inconceivable that the Israeli government would allow the country's gas export facilities to be located in an Arab state, particularly since the turmoil in Jerusalem's relations with Cairo following the ouster of former Egyptian President Mubarak.

Israel–Turkey Pipeline Plans

In light of the full range of political and commercial factors discussed above, the most promising export options for East Mediterranean gas are an Israel–Turkey pipeline (the cheapest route) and a liquefaction facility on Cyprus (which provides the greatest marketing flexibility). The government of the Republic of Cyprus is indeed intent on constructing an LNG terminal on the island, regardless of the economic risks posed by the relatively low level of gas reserves proven thus far in Cypriot waters: Aphrodite's proven reserves are now only one third of Leviathan's 900 bcm, (which equates roughly with Azerbaijan's total proven reserves, a volume that is necessary to launch the EU-supported Southern Corridor but not sufficient on its own to have a major geopolitical impact). The Cypriot government is confident that additional exploration will significantly expand the country's proven reserves, which could be complemented by gas from Israel and (a decade later) Lebanon. But, securing financing under such conditions of uncertainty would be considerably easier if backed by revenues from exports of Israeli natural gas via a more easily financeable Israel–Turkey pipeline.

> ***'… realization of an Israel–Turkey pipeline is currently blocked by the lack of political alignment among the parties.'***

The government of Cyprus, however, may hold a significant trump card with regard to an Israel–Turkey pipeline. According to the United Nations Convention on the Law of the Sea (UNCLOS), while no country can prohibit an international pipeline from being laid across its continental shelf, any county can impose conditions on its construction. While UNCLOS is thus ambiguous on whether Nicosia could block construction of the Israel–Turkey pipeline along its continental shelf, the Cypriot government may be able to argue its case with sufficient skill to secure political support among its EU allies, which in turn could raise the financing costs of such a project.

A Cypriot attempt to block construction of an Israel–Turkey pipeline would carry significant risks for all parties, perhaps most of all for those who favour a negotiated settlement of the Cyprus question. The United Nations is leading a diplomatic process to negotiate a political agreement between Cyprus and Turkey, which aims to reunify the island into a bi-zonal, bi-communal federation. That process has stalled since 2009. But the election of Cypriot President Nicos Anastasiades in February 2013 renewed hope for progress towards a settlement, given Anastasiades's strong public support in early 2003 for the Cyprus settlement plan proposed by former UN Secretary-General Kofi Annan. During the first half of 2013, such hope seems to have prompted the Turkish government to signal its readiness to re-energize its approach to political settlement negotiations with Cyprus.

Understandably, President Anastasiades has focused most of his energy on the Cypriot banking crisis during his initial months in office. But with some renewed progress in UN negotiations over a Cyprus settlement, political conditions could emerge to allow a collaborative approach between Nicosia and Ankara, as well as Jerusalem. A consequence of such an approach could see revenues from an Israel–Turkey pipeline facilitating the financing of an LNG terminal on Cyprus. This could involve early monetization of Aphrodite gas through its export via an Israel–Turkey pipeline, during the decade required to develop and construct the considerably more complex LNG terminal on the island.

The Way Forward?

Unfortunately, realization of an Israel–Turkey pipeline is currently blocked by the lack of political alignment among the parties. Normalization of Israel–Turkey relations remains stalled; and Cyprus and Turkey have treated future East Mediterranean natural gas exports as a reason to harden their positions on the Cyprus Question rather than to generate new momentum towards a negotiated settlement. These developments underscore the fact that major economic projects – such as hydrocarbon pipelines – cannot on their own generate political reconciliation. Rather, political conditions must first align sufficiently to allow two states to conceive of an economic project that can carry their political reconciliation further.

An Israel–Turkey pipeline will therefore never be realized as a 'peace pipeline'. Rather, it will emerge as the most commercially attractive export option for Israeli gas, after Israel and Turkey have normalized their political relations. Such a pipeline may then prove to be a key financial enabler of an LNG terminal on Cyprus. If the governments and private companies exploring these two projects proceed this far, they will generate further political momentum that could catalyse historic political breakthroughs regarding Cyprus, together with broader geopolitical issues in the Eastern Mediterranean. ■