Brief Analysis

Washington has logical reasons to step away from an undersea pipeline project in the East Mediterranean, though the decision effectively kills Israel’s improbable dream of becoming a significant gas supplier to Europe.

Earlier this month, the United States withdrew its support for the EastMed Pipeline, a proposed $6 billion seabed route that would have linked natural gas discoveries off Israel and Cyprus to facilities in mainland Greece and even Italy. When informing the governments of Greece, Israel, and Cyprus of its new position, the Biden administration cited economic and environmental concerns. Previously, the European Union announced that it was withdrawing as well, as part of its wider shift away from oil and gas projects.

EastMed’s commercial viability had always been questionable to many analysts. Amos Hochstein, the State Department’s senior advisor for global energy security, has long been a skeptic, reportedly once dubbing the project a “pipedream” even as former Israeli energy minister Yuval Steinitz was enthusiastically endorsing it. A long seabed pipeline in deep water is expensive to build and maintain, and low natural gas prices would have made it only marginally profitable at best. Additionally, the volume of gas needed to fill the pipe has still not been discovered years after the project was announced.

Another problem has been Turkey’s stance on the southern boundary of its exclusive economic zone, which would extend beyond the pipeline’s route and therefore give Ankara grounds to raise objections. The logic behind Turkey’s expansive territorial claim is questionable, but that would not negate the possibility of legal impediments.

The U.S. decision is a killing blow to the project. And the fact that it coincides with the Ukraine crisis will likely sound the death knell for Israel’s dreams of becoming an alternative to Russia as a significant gas supplier.
to Europe. Jerusalem’s hopes of building a significant sovereign wealth fund from the revenues have dimmed as well.

A cold look at the statistics illustrates Israel’s limitations. According to the BP Statistical Review of World Energy, the country had proven gas reserves of 600 billion cubic meters (bcm) at the end of 2020, or just 0.3% of the global total. By contrast, the world’s top three gas countries were Russia with 37,400 bcm (19.9%), Iran with 32,100 bcm (17.1%), and Qatar with 20,700 bcm (13.1%). Even U.S. reserves (12,600 bcm, or 6.7%) dwarfed Israel’s.

In terms of consumption, Europe uses about 540 bcm annually. Russia reportedly provides about 40% of this, or more than 200 bcm. Yet exports from Israel’s offshore Leviathan field are only around 10 bcm, and the output from its other major field (Tamar) is used to meet domestic power demand.

Although Israel, Greece, and Cyprus are no doubt disappointed about the withdrawal of U.S. and EU support, the project has served the valuable purpose of bringing them together diplomatically. The shift is unlikely to bring Turkey into the fold, however. Ankara remains a staunch regional rival to Greece and Cyprus, while President Recep Tayyip Erdogan’s longstanding coolness toward Israel will likely curb any near-term prospects of Turkey buying its spare gas. The two governments do not yet trust each other enough to make the major investments needed for a pipeline.

Another proposal remains on the table: establishing a high-voltage electricity interconnector to transfer surplus generated power between Israel, Cyprus, and Greece. Yet this plan is questionable as well—besides the great distances involved (more than 1,300 miles), a rival project has emerged for an Egypt-Cyprus-Greece interconnector, and the routes for both proposals may face Turkish legal objections.

This year will see further gas exploration and drilling of development wells in existing discoveries off the coasts of Israel, Egypt, and Cyprus. In all likelihood, however, any new discoveries will be important only in East Mediterranean terms rather than European terms. Investors are still contemplating the implications of last month’s speech by current Israeli energy minister Karine Elharrar, who noted that her office would be focusing on renewables in 2022 (specifically solar and wind). Israel’s gas may end up being a shorter-term, less-profitable boon than expected.

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