

# East Med Politics May Further Delay Cyprus Gas

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Brief Analysis

## The island has objected to Chevron's export proposals with Egypt and might look for other partners.

**O**n August 23, the government of Cyprus gave American energy giant Chevron three months' notice of expulsion from their arrangement to exploit the Aphrodite offshore natural gas field. Nicosia claims the company has delayed its obligations and offered unsatisfactory proposals over the past several months. Going forward, the parties will either rush to reach a compromise before the deadline or send the matter into arbitration—a scenario that could involve a lengthy holdup and prevent Cyprus from selecting new partners for the project. How did the deal arrive at this potential dead end, and which proposals seem mostly likely to produce the best suitor for Aphrodite?

## Enter Israel and Egypt

**D**iscovered in 2011, Aphrodite lies 150 miles south of Cyprus on the border of its maritime exclusive economic zone, with a sliver of the field lying in Israel's EEZ. Exploiting the gas has been a challenge from the start. Cyprus has a comparatively small population and therefore insufficient demand for the gas, while exporting it to Israel via pipeline makes no sense because the Israelis do not need it either and have limited capacity to pipe it elsewhere.

A pair of dream scenarios have been discussed: piping Cypriot gas (along with other East Mediterranean reserves) to Greece and the rest of Europe, or using it to generate electricity that is then transmitted via a cable stretching from Israel to Europe. Yet the gas is located deep below the seabed in water several miles deep, making extraction, transport, and/or transmission quite complex and possibly cost-prohibitive in both scenarios.

So the solution—as proposed by a consortium with production rights led by Chevron—is to pump the gas southward to Egypt via a shorter 150-mile seabed pipeline. Once brought ashore, it could be liquefied at one of Egypt's two

existing plants and then exported anywhere in the world by special LNG tankers. Yet Egyptian domestic demand is huge and currently outstrips supply, so Aphrodite gas could be used to feed that need instead. On September 2, the *Financial Times* reported that gas shortages had led to blackouts throughout the country, spurring Cairo to import LNG, which is more expensive than piped gas.

Chevron's current consortium partners are the multinational corporation Shell (with a similar 35 percent stake) and the Israeli company NewMed (30 percent). The cost of their proposed development plan is \$4 billion. If Cyprus parts ways with this group, other companies that may be interested in the license are BP (in partnership with the Abu Dhabi National Oil Company, or ADNOC) and Energean, a London-quoted Greek company that is currently using a floating production vessel to [exploit Israel's Karish field \(https://www.washingtoninstitute.org/policy-analysis/israeli-gas-field-near-lebanon-starts-production\)](https://www.washingtoninstitute.org/policy-analysis/israeli-gas-field-near-lebanon-starts-production) near the maritime border with Lebanon.

Commercial interest in any gas field requires a long-term perspective. Licenses are typically for fifteen to twenty years, and companies have to cover their own capital expenditures. In Aphrodite's case, any company would need four to five years to complete the infrastructure before the first gas flows, so the energy and commercial benefits would not be immediate for any of the parties.

## Turkish Intervention?

Fast-moving regional politics could change the calculus as well, even apart from [Israel's ongoing clashes \(https://www.washingtoninstitute.org/policy-analysis/israel-plans-hike-gas-output-despite-hezbollah-threats\)](https://www.washingtoninstitute.org/policy-analysis/israel-plans-hike-gas-output-despite-hezbollah-threats) with Hamas and Hezbollah. On September 4, Egyptian president Abdul Fattah al-Sisi flew to Ankara to meet with his Turkish counterpart—Sisi's first visit in twelve years. Turkey's assertive perception of EEZ borders in the East Mediterranean has overshadowed local gas exploitation for many years. Cyprus is particularly affected because Turkish troops occupy the island's autonomous northern zone (unrecognized internationally apart from Turkey itself). Ankara has also put forth the dubious argument that an island nation cannot be granted the full EEZ rights accorded to mainland countries.

As Nicosia's expulsion deadline ticks down, tense weeks of negotiation and bluff are likely, with Energy Minister George Papanastasiou adopting a more assertive stance than his predecessors. The outcome is hard to predict but does not bode well for future investors in gas reserves claimed by Cyprus.

*Simon Henderson is the Baker Senior Fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute.* ❖

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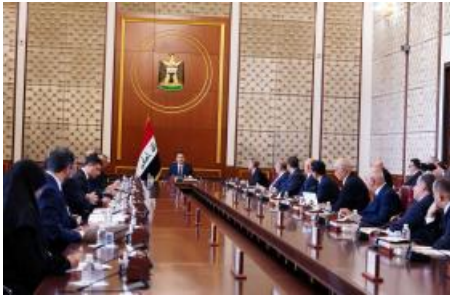
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