

Israel's Developing Relationship with Cyprus

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Brief Analysis

President Anastasiades will likely use this week's summit to build momentum toward the development of offshore gas reserves, with Iran and other issues making the agenda as well.

On July 28, Israeli prime minister Binyamin Netanyahu will visit Cyprus for discussions concentrating on natural gas, among other key topics such as Iran, counterterrorism, and the Palestinian peace process. The importance of the talks is evident in their timing: the meeting comes just six weeks after Cypriot president Nicos Anastasiades visited Jerusalem, and it will be Netanyahu's first trip abroad since his March reelection.

Although the Cypriot media has indicated that no formal agreements are expected to be signed, the agenda will likely include development of the Aphrodite offshore gas field, which lies mainly in the island's exclusive economic zone but also overlaps Israel's EEZ. A map on the website of Noble Energy -- the Houston-based company that discovered the field as well as various Israeli offshore reserves -- indicates that a tiny fraction of Aphrodite, said to be 1-3 percent, extends into Israeli waters. But even this small amount will eventually require a "unitization agreement" so that there is no dispute over revenues from sale of the gas. Progress on developing the island's gas resources contrasts with the situation in Israel, where authorities are stalemated over the regulatory framework for expansion of the already producing Tamar field and the yet to be developed Leviathan field. (Licenses for these fields and Aphrodite are owned by Noble and a consortium of Israeli companies led by Delek.)

More broadly, Netanyahu's visit reflects the Israeli government's good relationship with Nicosia. It may even provide an example for possible future agreements with Lebanon on maritime borders and shared hydrocarbon reserves.

Yet the talks are also likely to infuriate Turkey, which does not recognize the government in Nicosia or the EEZ agreement between Cyprus and Israel. Turkish commentators suggest that the best use of the Aphrodite gas would

be to send it by seabed pipeline to the Turkish mainland. Currently, Noble is examining a more likely alternative: sending the gas via pipeline to Egypt, where it could be used domestically or converted into liquefied natural gas (LNG) for export. In the past, the Turkish navy and air force have harassed drilling activities in the Cyprus EEZ. But discussions on the Egypt option are more advanced than any Turkish proposals, and Cyprus/Noble/Delek will likely go on ignoring Ankara's opposition.

Other issues likely to be discussed include the threat posed by Iran -- Cypriot police recently discovered a cache of explosives linked to Tehran's main terrorist proxy, Hezbollah. The subject of Israeli peace talks with the Palestinians will probably surface as well, since President Anastasiades has been anxious to breathe life back into the negotiations. But the gas issue will be at the core of the discussions, and from Nicosia's perspective, Israel's status as a counterweight to Turkey will be crucial to setting a tone for Cypriot development efforts.

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

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