

Gas Issue Dominates Cyprus-Israel Agenda

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Brief Analysis

As Israeli and Cypriot officials meet in Jerusalem, energy-thirsty Egypt remains the obvious market for their offshore gas exports, but such deals risk Turkish ire.

On June 15, President Nicos Anastasiades of Cyprus held a working lunch with Israeli prime minister Binyamin Netanyahu in Jerusalem. The meeting followed an audience with President Reuven Rivlin and a Sunday visit with the Greek Orthodox Patriarch. Although mutual security was on the agenda after last month's discovery of a Hezbollah explosives cache in Cyprus, much of the discussion between Israeli officials, Anastasiades, and his accompanying foreign and energy ministers has no doubt focused on the future of the two countries' newfound natural gas resources.

In terms of offshore reserves, Cyprus has been the poor relation of Israel -- the lone gas field it has discovered (Aphrodite) contains an estimated 5 trillion cubic feet, compared to Israel's several fields and total reserves around eight times the size. Yet domestic gas demand in Cyprus is small, making the export option an obvious first step.

Moreover, Israel's gas development efforts have been set back by a row that erupted at the end of 2014, when Houston-based Noble Energy and its Israeli consortium partners (led by Delek) were deemed to be a monopoly. The new Netanyahu government formed after the March elections has declared gas development to be a national security priority, and the antitrust commissioner who had stalled the Noble-led project was sidelined to the point that he announced his resignation last month. Yet getting development of the giant Leviathan field back on track will apparently take several months.

In the meantime, Noble and Delek have turned their attention to Aphrodite, where they also own the license. In March, on the sidelines of the Sharm al-Sheikh economic summit, the Cyprus Hydrocarbons Company (CHC) signed

a memorandum of understanding with the Egyptian Natural Gas Holding Company (EGAS) to develop the field. Then, on June 7, the Cyprus Energy Ministry declared the field to be commercial, prompting Noble and Delek to submit a development plan on June 11. Their plan calls for a floating production storage and offloading (FPSO) vessel to be located over the field, which lies in deep water more than 100 miles south of the island, close to its maritime border with Israel.

While the plan does not mention where the gas would be exported, the obvious destination is Egypt, which is struggling to cope with growing domestic energy demand and is having difficulty fulfilling contracts to export liquefied natural gas (LNG). Israel has also considered exporting gas to Egypt from its Tamar field, which is already producing for domestic demand and will soon supply two Jordanian industrial plants near the Dead Sea. One plan for exporting this gas to Egypt would involve reversing the pipeline that previously brought Egyptian gas to Israel. That pipeline has been plagued by sabotage, so there is also a proposal to run a new pipeline offshore. Egypt hopes, perhaps optimistically, to be independent of gas imports by 2020, but Cyprus or Israel could still use the existing Egyptian LNG plants on the Nile Delta coast to process gas for export.

Apart from the commercial, financial, and technical hurdles, Turkey's reaction could pose a further problem. Although Ankara seems distracted by its recent parliamentary elections, it has been vocal in the past about offshore gas exploration around Cyprus, even to the extent of deploying naval ships and military aircraft. Turkey regards itself as the natural market for Cypriot and Israeli gas exports. It also objects that Nicosia is exploring for gas offshore without the involvement of Turkish Cypriots, who live in the northern part of the island that has been occupied by Turkish troops since 1974. A further tension is that President Abdul Fattah al-Sisi of Egypt and President Recep Tayyip Erdogan of Turkey increasingly see themselves as competitors for regional leadership.

The meetings in Jerusalem, including a formal banquet at President Rivlin's residence, underline the growing importance of Israeli-Cypriot ties. The plans for development of the Aphrodite field should also remind Israel of the imperative not to delay the utilization of its offshore gas riches.

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

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