

Gas Partnership: Netanyahu Visits Cyprus

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Brief Analysis

Netanyahu's trip to Cyprus, the first by an Israeli prime minister, reflects increasing cooperation between the two countries over natural gas resources but will likely heighten tensions with Turkey.

On Thursday, Israeli prime minister Binyamin Netanyahu will visit Cyprus, only three months after a similar trip by President Shimon Peres. The state visits follow a series of ministerial-level meetings to discuss the development of newly discovered offshore natural gas fields and a range of associated diplomatic and security complexities relating to neighboring Turkey and Lebanon. Both Israel and Cyprus have found enough gas in their maritime exclusive economic zones (EEZs) to satisfy domestic demand for many years, with additional quantities available for export, but managing regional diplomatic tension over these resources may prove tricky.

Background

For years, the Israel-Cyprus relationship has been cautious, hampered by the former's close, though now weakened, links with Turkey. Relations between Nicosia and Ankara are tense because some 30,000 Turkish soldiers have been stationed in northern Cyprus since 1974, when they intervened to protect the Turkish Cypriot community after a short-lived Greek Cypriot coup. The island has been partitioned ever since, with Turkish Cypriots living in the self-declared Turkish Republic of Northern Cyprus, unrecognized internationally except by Ankara. Meanwhile, the Greek Cypriots have joined the European Union, which holds that the government in Nicosia has sovereignty over the entire island -- much to Turkey and the TRNC's irritation.

Gas Windfall

The discovery of huge offshore gas fields has coincided with a downturn in relations between Israel and Ankara, marked by sharp diplomatic exchanges and the May 2010 *Mavi Marmara* incident, in which nine Turkish activists on a protest ship bound for Gaza died in a confrontation with Israeli naval commandos. In December of that year,

Israel and Cyprus signed a maritime border agreement after the appropriately named Leviathan field was discovered in Israel's EEZ. A year later, Cyprus announced that gas had been found in commercial quantities in Block 12 of its own EEZ, close to the Leviathan field.

The new Cypriot field, estimated to contain 7-8 trillion cubic feet of gas, could make the island self-sufficient in energy for decades while also allowing sizeable exports to Europe. And Israel's Leviathan field is estimated to hold 17 trillion cubic feet, all of which is intended for export because the smaller Tamar field (8 trillion cubic feet) is sufficient for domestic consumption. In fact, Tamar's reserves are deemed large enough to supply Israeli demand for decades, even allowing for much-expanded use of gas. (Scheduled to be onstream by 2013, Tamar's gas is urgently needed because of disruptions to supplies from Egypt.)

Commercial Options

The most obvious commercial option for export surpluses of Israeli and Cypriot gas would be to bring it to the island by undersea pipeline, then pipe it north across the island and undersea to the Turkish mainland. There, it could join a pipeline network supplying Europe. Yet given Turkey's hostility toward the Greek Cypriot government and recent criticism of Israel, this is not realistic in the foreseeable future.

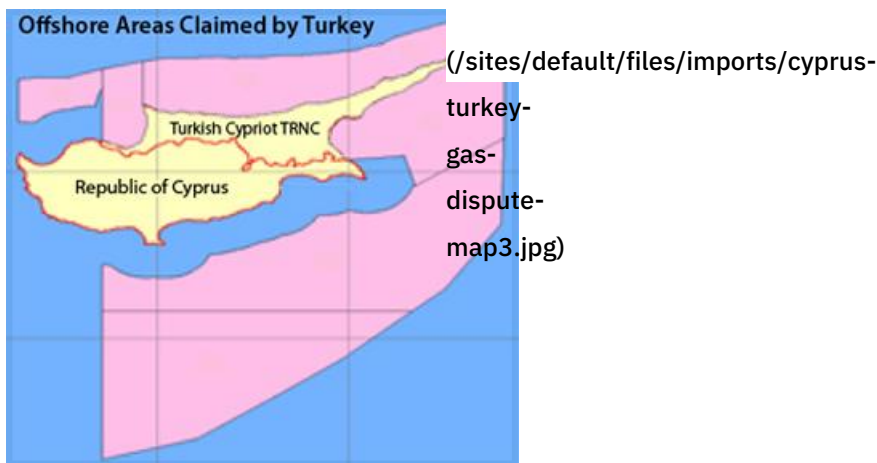
Among other alternatives, including a pipeline via Crete to the Greek mainland, the most credible is building a jointly owned liquefied natural gas plant on the island's southern coast, which would convert the gas into a form that could shipped anywhere in the world. Israel has also considered establishing an LNG production ship over the Leviathan field or piping the gas to its Mediterranean coast. In the latter scenario, the gas could be converted into LNG for export, perhaps at a yet-to-be-built plant on Israel's small Red Sea coast, which would be best suited for selling to the growing and hugely profitable Asian market. Currently, a high-level interministerial committee is weighing these and other options and is due to report its findings to Netanyahu shortly.

Security Threats

Except for undersea pipelines (which would lie at depths of up to 5,000 feet), every other aspect of the exploration, development, and production of the new gas fields is vulnerable to attack or sabotage, whether the target be drilling rigs, supply ships, helicopters, or processing facilities on land or offshore. Israel is expanding its naval forces and air assets (including drones) in order to protect facilities and workers in its EEZ, and Cyprus is expected to welcome this security umbrella under the guise of a series of bilateral defense agreements. (Unlike most other EU countries, the island is not a NATO member and has only a small military with no significant air or naval forces.) Some media outlets have speculated that Israel will gain permission to use the Cypriot air base at Paphos, on the island's western coast. At present, this "base" is simply the small and usually empty military side of an airport that is more often used for tourist flights from Europe.

Diplomatic Threats

Nicosia's gas development efforts fall under the shadow of Turkey, which argues that Cyprus is entitled to only 12 nautical miles of territorial waters rather than the usual maximum 200 nautical miles allowed by the UN Convention on the Law of the Sea. From Ankara's unique perspective, the newly discovered Block 12 field, lying south of Cyprus, is actually in Turkish waters (see figure below). Last year, Ankara sent the seismic vessel *Piri Reis* (named for an Ottoman-era military cartographer) to survey the area.



Source: TPAO

Meanwhile, Israel is concerned about the discrepancy between Lebanon's view of its maritime border with Cyprus and the line agreed to by the island and Israel. Beirut regards the southern point of the dividing line it drew with Nicosia in 2007 as a mistake. Awkwardly, this is the exact same point that now forms the northern end of the maritime border Nicosia drew with Israel. Lebanon's efforts to renegotiate its agreement with Cyprus have been rebuffed so far, with Nicosia pointing out that the disagreement is between Beirut and Israel. The conflicting lines -- which form a pie-shaped area of a few hundred square miles -- could become yet another vexatious issue between Israel and Lebanon (though Israel has yet to find any gas reserves in the area, and Lebanon has yet to look).

Itinerary of Netanyahu's Visit

During his few hours on Cyprus, Netanyahu is due to meet with President Demetris Christofias and Foreign Minister Erato Kozakou-Marcoullis. A search-and-rescue agreement is due to be signed, which will give the parties an opportunity to again discuss security arrangements for offshore gas installations. Cyprus will be anxious to hear Israel's latest thinking on how best to exploit the gas reserves, while Netanyahu will be eager to avoid becoming an unwitting party to the island's long-running partition dispute. Nicosia's stated position is that it will use any gas revenues (which are not expected to flow for another seven years) for the benefit of all citizens of Cyprus -- wording that excludes the Turkish military stationed on the island as well as the more than 100,000 mainland Turks (Nicosia's estimate) who have come to settle there.

Washington's Concerns

Some State Department officials reportedly consider the gas findings in the waters around Cyprus as a diplomatic opportunity to resolve the island's historical dispute, even though the development might make the problem more intractable. Both Greek and Turkish Cypriots continue to hold stubborn negotiating positions. The bottom line should be to encourage the exploitation of these new energy reserves -- not only because a Houston-based company, Noble Energy, is a major player in both the Israeli and Cypriot EEZs, but also because of the economic benefits that would flow to the region. U.S. pressure already appears to have dampened the inflammatory rhetoric issued by Ankara for much of last year, and continuing similar diplomatic efforts will likely remain vital.

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

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