

Exploiting East Mediterranean Gas: New Milestones, New Obstacles

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Even as exploration companies make crucial advances on specific projects, broader development of the area's resources will require the players to overcome political tensions and market hurdles.

In late January, workers positioned the foundation jacket for the Leviathan natural gas platform on the seabed six miles off the coast of northern Israel. For the moment, just a few feet of steel piping are visible jutting out of the water, but later this year the topside platform will be towed to the site and placed in position using a gigantic floating crane, providing a helicopter pad, processing equipment, and living accommodations. Meanwhile, the platform will be connected to pipelines from the Leviathan field, located deep below the seabed another eighty miles out. Sometime during the last quarter of 2019, the whole facility will be commissioned, and gas will flow ashore to customers in Israel, Jordan, and, if contracts are finalized, Egypt.

Natural gas may be an "invisible fuel," but getting it to flow in the East Mediterranean region is a highly politicized process fraught with security concerns. The placing of the Leviathan jacket coincided with a week-long Israeli naval exercise that included firing missiles to sink an old cargo freighter, which was playing the part of a terrorist mothership for small attack boats. A range of other challenges—diplomatic, military, and commercial—are emerging as well, though encouraging breakthroughs in regional cooperation could alleviate the more predictable problems.

The basic parameters of the political/economic picture have been static for several years:

Potentially significant reserves, but difficult to tap. The principal area of interest is the expanse of sea beginning off the coast of Israel, Gaza, and Lebanon, extending northwest toward Cyprus. Various discoveries have already been made there, usually of gas but with some potential for oil as well. Egypt is keenly interested in this area as well. Although the country has a long-established oil and gas infrastructure with numerous fields off the Nile Delta, its largest find occurred in waters around 120 miles north—the Zohr gas field, discovered in 2015 and even bigger than Israel's Leviathan.

Yet drilling in these deep waters is expensive (\$100 million for each hole), time consuming (three months), and infuriatingly unpredictable despite detailed preliminary seismic work. For example, ExxonMobil, partnering with Qatar Petroleum, recently failed to find commercial quantities in a Cypriot offshore block and has moved its drilling ship to another prospect slightly further north.

Disputes over legal title. According to the Law of the Sea, any littoral country can claim an exclusive economic zone, but its boundaries have to be agreed with neighboring states. Notably, Lebanon does not recognize Israel's claimed EEZ and refuses to negotiate. Likewise, Turkey does not acknowledge that Cyprus has an EEZ beyond its twelve-mile territorial limit and has harassed exploration vessels beyond that distance. The Turks also claim that their own EEZ reaches as far south as a line with Egypt—though Cairo has agreed on an EEZ with Cyprus that includes much of this area. Adding to the confusion, Ankara allows the otherwise unrecognized "Turkish Republic of Northern Cyprus"—where Turkish forces are based—to claim a large EEZ south of the island, extensively overlapping the EEZ claimed by the internationally recognized Cypriot government.

Hot and cold diplomatic environment. Regional political rivalries have hindered some developments while facilitating others. President Abdul Fattah al-Sisi of Egypt has come to regard Israel as a trustworthy security partner; he also acknowledges that his country needs Israeli gas to satisfy its domestic demand and fulfill its export potential. Meanwhile, relations have deteriorated between Israel and Turkey, Egypt's main regional rival. President Recep Tayyip Erdogan's apparently visceral dislike of Prime Minister Binyamin Netanyahu appears to have killed the notion of a northward export line, at least while both men remain in power. As a result, the economic dilemma of having to choose between working with Egypt or Turkey has effectively been decided for Israel on political grounds.

Several other challenges are now coming to the fore as well:

Finding the market. The gas discovered so far has been transformative for Israel, allowing it to steadily replace old and dirty coal-fired power stations. But the burden of this change is carried by gas from the Tamar field, which also supplies two Jordanian industrial plants by the Dead Sea. Only some of the new gas from Leviathan will be used domestically. Israel has signed a fifteen-year, \$10 billion contract with Jordan to generate power for its national grid, but development of Leviathan only makes commercial sense if the gas is exported on a large scale.

Some of the gas sent to Jordan is already destined to end up in Egypt via the existing Arab Gas Pipeline, which loops south to the Red Sea and then north across the Sinai Peninsula. A further breakthrough occurred last year when Cairo reached a tentative agreement with several companies to take over and reverse the flow of another Sinai pipeline that used to bring Egyptian gas to Israel; this one extends along an undersea coastal route between al-Arish and Ashkelon. Once contracts have been finalized and some engineering work completed, the updated line will enable Israeli gas to be used domestically in Egypt or exported by tanker via two existing liquefied natural gas facilities: one near Port Said, the other close to Alexandria.

Bitter politics. Development of Leviathan and Tamar has been led by Houston-based Noble Energy, working with a consortium of Israeli companies. Domestic politics have made this a rocky experience, with sometimes-wild accusations of profiteering and environmental impact scaring off many of the other foreign exploration companies whose technical expertise is needed. Last month, Yair Lapid, the leader of Israel's Yesh Atid Party, declared that if he won power in the April 9 elections, he would immediately freeze the Leviathan project—a remark that shocked observers in the energy sector.

In Egypt and Jordan, the public is deeply hostile toward partnering with Israel, leading to official statements that sometimes contort reality. In Jordan, Leviathan gas is often referred to as “Noble gas,” while recent Egyptian statements have claimed that some of its future gas production will go to Jordan (this is indeed the current situation, but only a temporary one). Jordan has also discussed the prospect of importing Iraqi gas, a more politically palatable source; yet King Abdullah apparently prefers the Israeli option because it can provide much-needed gas this year.

Terrorism. Last week's Israeli naval exercise was spurred by concerns over potential Hamas or Hezbollah attacks against offshore facilities. The pipelines across Sinai present another vulnerability, since the area is still plagued by lawlessness and Islamic State terrorism. Egypt's military forces have a patchy record on coping with this threat. Interested parties could lay a new pipeline off the coast of northern Sinai to greatly minimize the threat, but this would add considerable expense and delay.

The Iranian factor. When Lebanon's new government issued an exploration license to a consortium led by Total of France earlier this week, the southern part of the block in question was found to lie in an area disputed by Israel. Drilling is expected later this year, though presumably not close to the contested line. In one sense, the decision is welcome because the project could help alleviate Lebanon's poor economic and energy circumstances in the long term. Yet assuming gas is found, any field would take billions of dollars and several years to develop. It might also become a political livewire, perhaps even a military issue, given Iran's extensive influence in Beirut.

NEW GAS FORUM

Last month, the energy ministers of Cyprus, Egypt, Greece, Israel, Italy, Jordan, and the Palestinian Authority met in Cairo to establish the East Mediterranean Gas Forum, intended to enhance cooperation and dialogue. The summit built on earlier meetings that discussed a seabed pipeline running from Israeli and Cypriot fields to Greece and on to Italy, where it would join the European pipe network. Such a line would be an engineering challenge, however, and the gas to fill it has yet to be discovered. Also unclear is who would pay the huge estimated price tag of \$7 billion.

Along with the progress on Leviathan's development, the new forum represents an advance toward a zone of mutual prosperity that seemed unimaginable a few years ago. But the absence of Turkish and Lebanese representation at the Cairo meeting is a reminder that larger geopolitical struggles still dominate the region.

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