

A Silver Lining For Cyprus, Challenging Russian Gas

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For this blog post I have selected a piece from Harvard-based political analyst George Tsarouchas.

Natural gas discoveries in Eastern Mediterranean can permanently divide or reunify Cyprus. Long divided between the north and the south, the island's issues have caused deep rifts within the region. Can the exploration of natural gas increase stability in the eastern Mediterranean and change the energy geopolitics of the region and wider Europe?

Cyprus discovered offshore natural gas in 2011 and claims that it holds up to 60 trillion cubic feet of it. If this is true, it would make the island the EU's second largest energy source, behind Norway, and markedly decrease Europe's dependence on Russian gas.

In a region where politics, rather than economics, determine the future of energy investments, these recently discovered gas fields have created huge potential for a solution

to the division of the island by helping to revive the stalled talks. The Turkish side of Cyprus insists that Nicosia cannot begin drilling without their consent. Thus, Cyprus' dismissal of Turkey's claims could lead to serious repercussions from Ankara as Turkey has already started claims to begin drilling in the seas north of the island.

Bringing the gas to market is another big challenge for Cyprus. Nicosia's top priority is to build a plant to liquefy natural gas, or LNG, and transport it by sea. However, the future of the project largely rests on the decisions of Israel. The country has discovered a large field close to Cyprus, and there is talk of a \$10 billion to \$15 billion LNG terminal on the island. From this facility, gas would be jointly exported to Europe and other markets where the price of natural gas is higher. But for the moment the Israeli government seems hesitant to cooperate with Cyprus, since it believes that Ankara might interpret the development as a strategic threat, potentially worsening relations between the two countries. It is also possible that without pooling costs with Israel, financing of any LNG developments might be halted by the fact that Cyprus does not yet possess enough gas to make the enterprise profitable.

A second option exists for Cyprus, in the form of a pipeline to Turkey. This option would be quicker, much less expensive and consequently substantially more profitable. However, it requires a settlement of the Cyprus issue, and water depths suggest that only one gas field could be utilized by such a system. Therefore, if Cyprus discovers another three gas fields, it will need to invest in a further three pipelines to send the gas to Turkey.

Alternatively, Cyprus could build a pipeline to Italy or Greece via Crete. Greece has begun exploration for natural gas on its own, with Greek Prime Minister Antonis Samaras hinting at "vast" reserves found in Greek waters. Greece has also developed strategic partnerships with Israel. It is also possible that the EU will support this Israel-Greece-Cyprus energy partnership. However, the scale of the operation poses large technical and logistical challenges, and may not be financially and commercially feasible.

Although improved relations between Greece, Cyprus and Israel are a reality, the issue remains as to whether or not their partnership with the Jewish state can fully substitute its former strategic military partnership with Ankara. Israel's new friendships with southeast European states can be seen more as an attempt to balance the dynamics of its relationship with Turkey, and it is expected that for economic and political reasons, Israeli gas operations will likely be split between Cyprus and Turkey.

Finally there is Russia. Moscow wants to keep Cyprus and Israel from cooperating too extensively since an energy alliance in the Mediterranean can loosen Russia's grip on Europe. For this reason, Gazprom is pushing for a deal with Israel that would give the Russian energy giant the right to purchase and export Israeli natural gas. For the moment, however, Israel has managed to prevent Moscow from gaining a foothold in Israel's natural gas sector.

Meanwhile, Cyprus has signed production contracts with U.S based Noble Energy, France's Total, Italy's ENI and KoGas of South Korea. Although Nicosia's strategy to convert concession agreements with big companies into political support from big countries has worked well so far, nobody can predict Turkey's future reactions — including the permanent de facto division of the island.

A win-win solution could be found with the peaceful cooperation of all hydrocarbon-rich countries in the area. Greece, Turkey and Cyprus have all made mistakes over the past decades, but Cypriot President Nicos Anastasiades seems willing to work toward a solution. A permanent division would be devastating for Cyprus, and an ongoing issue for Greece, Turkey and the rest of Europe. Cyprus's current economic crisis offers a perfect opportunity for all parties to abandon their win-lose mentalities, instead resolving their past problems and capitalizing on opportunities for future economic growth.

George Tsarouchas is a Harvard-based political analyst focusing on South-East Europe.

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