

## *Shifting Sands or Burning Bridges?*

### *The Evolution of Turkish-Israeli Relations after the Mavi Marmara Incident and the Strategic Energy Calculations of Greece & Cyprus*

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## Prologue-Structure

The tectonic changes that have been shaping the Near East since the beginning of the Arab Spring in early 2011 have overshadowed the significance of the disintegration in Turkish-Israeli relations in the shaping of the new balance of power in the region and beyond it. The fall of the Mubarak and Qaddafi regimes and the continued civil war in Syria are reshaping the modern Middle East in ways which are apparently more important than the falling-out between the region's two most important U.S. allies. Within so volatile and unstable an environment, where geopolitical alignments seem to shift faster than the desert's sands, one could discard the importance of the Turkish-Israeli "divorce" as a temporary phenomenon.

The shifting sands of Middle Eastern geopolitics will in all likelihood typically re-normalize Turkish-Israeli relations but are not likely to rekindle their older partnership. The need to confront the spill-over from the Syrian civil war and the necessity of deterring the development of an Iranian nuclear bomb, are often cited as reasons for the Turkish-Israeli rapprochement. According to this line of thought it is not a matter of whether but when would Turkish-Israeli relations return to a state of normalcy and cooperation. The "bridge" of Turkish-Israeli cooperation is not burned; it's just damaged and could be easily repaired.

A different line of thought, which is aware of the depth in the bilateral relationship between Turkey and Israel before 2010, takes the opposite view. Although Turkish-Israeli relations would most likely renormalize, the possibility of their return to a state of close or systematic cooperation is minimal. It may be true that the geopolitical bridge connecting Turkey to Israel is not broken, but it is certainly approaching the point of collapse and cannot be easily repaired. A Turkish-Israeli rapprochement may stop it from collapsing but it is not likely that it will reverse the strategic divergence that has distanced Tel Aviv from Ankara.

The reasons for this chasm are not temporary and do not only relate with the affair of the *Mavi Marmara*. They do relate though with the rise of Recep Tayip Erdogan to power in Turkey and the gradual shifting of Turkish foreign policy in the Middle East from a secular to a pro-Islamic direction that is increasingly becoming more ideologically driven. The *Mavi Marmara* incident merely sparked the flame that resulted in the rupturing of the *formal*<sup>1</sup> Turkish-Israeli Strategic Axis<sup>2</sup> of the 1990s but was not the root cause of this rupture. The *Mavi Marmara* does not represent a solitary event that can be easily brushed aside not only -or even not primarily- because blood was spilled "just" for the second time in the history of Turkish-Israeli relations.<sup>3</sup>

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<sup>1</sup> Turkey and Israel established an informal alliance that included a secret agreement concluded between Adnan Mederes & David Ben Gurion, which obliged "the two states to go to war against a common enemy under certain circumstances", Marios Evriades, "Hegemonic Alliances and Destabilization in the Middle East: Israel, Turkey and the U.S.", in Christodoulos Yiallourides & Panayotis Tsakonas (eds.), *Greece and Turkey after the End of the Cold War*, New York, (Caratzas: 2001), pp.101-122, p.102.

<sup>2</sup> It was the current Israeli Prime Minister Benjamin Netanyahu who, back in 1998, first coined the phrase "Strategic Axis" in order to describe the Turkish-Israeli alliance of the 1990s. He did so in his formal capacity as the then Israeli Prime Minister, an office he initially held from 1996 to 1999. It is ironic that it is again Netanyahu who is leading the dismantling of this alliance today. Evriades, *ibid*, p.101.

<sup>3</sup> The other incident occurred in February 1986 when the Israeli Navy fired upon the Turkish merchant ship *Laros I*, killed the captain and arrested the entire crew on charges of smuggling without

The main reason why the *Mavi Marmara* incident is likely to continue to poison the bilateral relationship between Ankara and Tel Aviv for many years, is that it constituted the climax of a strategic divergence that deteriorated rapidly after Israel's military intervention in Gaza (December 2008), but could be traced back to the opposition of Erdogan's *AK Partisi* to the U.S. invasion and occupation of Iraq (March 2003). This research paper will focus on the development of Turkish-Israeli relations after the *Mavi Marmara* and especially after the apparent beginning of a rapprochement in early 2013. *It will argue that the divergence has grown too big for anyone to bridge as long as AKP's ideologically driven foreign policy continues to support the revival of the Muslim Brotherhood parties throughout the modern Middle East.*

The paper will then examine the way Greece reacted to the Turkish-Israeli "divorce" while detailing the goals, aspirations and tangible results of what has become a period of unprecedented Greek-Israeli cooperation. This examination would be placed within the wider historical context of Greek-Israeli relations since the recognition of the State of Israel from Greece in 1990. Although the post-*Mavi Marmara* "rapprochement" is the third time since 1990 that Athens and Tel Aviv tried to "mend fences" and develop a greater cooperative agenda, the quality and dynamism of the synergies developed during 2010-2013 have turned this "rapprochement" into a comprehensive alignment.

The joint meeting of the Greek and Israeli cabinet in Jerusalem on 7 October 2013<sup>4</sup> was illustrative of the qualitative difference in Greek-Israeli cooperation that still falls short of an alliance. What would best describe the current status of Greek-Israeli relations is an alignment of interests in several important areas that still lacks the core *raison d'être* for becoming an alliance. A Tripartite energy cooperation manifested in the liquefaction of Israeli gas in Cyprus and the more long-term construction of gas pipelines and electricity cables to Greece, can constitute the missing *cardinal interest* which will transform the alignment into an alliance.

Yet, if Israel decides not to use Cyprus as a conduit for *part* of its gas exports to Europe such an alliance may not emerge at all, unless Turkey decides to use its military power offensively in ways that would *necessitate* a closer military cooperation between the three non-Arab, non-Islamic democracies of the Eastern Mediterranean. Given the importance attributed to the role of energy in the further geopolitical alignment of Israel-Greece and Cyprus the paper will conclude with a comparative political and economic analysis of the three major export options available to Israel/Cyprus for the monetization of their gas reserves (proven and prospective) that will have a direct impact on the trilateral alignment of Athens-Nicosia and Tel Aviv.

These export options are: (i) the Leviathan-Ceyhan pipeline which lies at the epicentre of the ongoing attempt to re-normalize Turkish-Israeli relations, (ii) the gas pipeline connecting Israel-Cyprus and Greece and (iii) the construction of an LNG liquefaction terminal in the Vassilikos area onshore Cyprus, which remains the Republic's principal export option.

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provoking any reaction from the side of the then Turkish Prime Minister Turgut Ozal. Evriviades, *ibid.* p.108.

<sup>4</sup> "Samaras Visits Israel to Develop Defence and Energy Ties", *To Vima*, (electronic edition), 07/10/2013, <http://www.tovima.gr/en/article/?aid=533609>

# 1. The Process of the Turkish-Israeli Rapprochement and the Political Emergence of the Leviathan-Ceyhan Natural Gas Pipeline

The *informal* apology extended by Israeli Prime Minister Benjamin Netanyahu to his Turkish counterpart in April 2013 regarding the *Mavi Marmara* incident tends to create the erroneous impression that Turkish-Israeli relations are about to return (or are in the process of returning) to the point that they were *before* the *Mavi Marmara* incident. According to this line of thought the rapprochement between the two states is a “done deal”<sup>5</sup> that is already reconfiguring regional geopolitics. Some of the potential repercussions of this reconfiguration may force Israel to:

(i) partly revise its relations with Cyprus and Greece, (ii) force Tel Aviv to revise or unilaterally annul the Exclusive Economic Zone (EEZ) agreement it signed with Cyprus in December 2010 and (iii) induce Delek and probably Noble to withdraw from Cyprus, unless Nicosia concedes to the construction of a gas export pipeline to Turkey that would carry Cypriot *and* Israeli gas from respectively the Aphrodite and Leviathan fields.

In case Cyprus refuses such an arrangement, which is promoted by Turkey *regardless* of the talks on the resolution of the Cypriot Question, Delek would withdraw from the development of the Vassilikos LNG terminal thereby making it financially unattainable at the current stage. Other proponents of this argument are viewing the construction of the Turkish-Israeli pipeline as an opportunity to resolve the Cyprus Question by committing Cypriot gas to the construction of an underwater pipeline from Leviathan to Ceyhan arguing that this would be to the benefit of Greek-Cypriots despite the obvious commercial deficiencies and geopolitical complications of such a prospect.

Before the specific geopolitical parameters that would affect the viability of a Turkish-Israeli gas pipeline are analyzed, this chapter will (a) assess the status quo of Turkish-Israeli relations, and (b) estimate the range and potential significance of their aligned interests, while analyzing the progress made between the two states since Netanyahu’s “apology” six months ago. A more accurate analysis of what has actually occurred in Turkish-Israeli relations since April 2013 is a credible indication to what may actually happen in the near future and constitutes a more accurate benchmark for measuring the actual progress of their rapprochement. Contrary to the perception of re-acquired normalcy, Turkey and Israel are only making the first steps in an effort to restart their rapprochement.

*Ankara and Tel Aviv are essentially negotiating the terms of how to negotiate their rapprochement.* The end-result of this process is not a return to the strategic alliance of the 1996-2006 period or the more troubled alignment of the previous years, especially since Prime Minister Erdogan recognized Hamas as the government of the Gaza Strip in 2006 in clear contradiction of US and EU policy who have both characterized Hamas as a terrorist organization.

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<sup>5</sup> Daniela Hubner & Natalie Tocci, *Behind the Scenes of the Turkish-Israeli Breakthrough*, *Instituto degli Affari Internazionali*, Working Papers #13, (April 2013), p.1.



What lies at the end of this process, at least from the Israeli point of view, is the full restoration of diplomatic relations at the ambassadorial level and -on an ad hoc basis- the gradual restart of arms exports. Several Israeli diplomats view the Turkish-Israeli pipeline as a confidence building measure or at least this is the principal Israeli perspective. From the Turkish point of view the pipeline's political usefulness is far more ambitious and relates to Ankara's efforts to neutralize Cyprus' progress regarding the development of its hydrocarbon resources.

The gap in the Israeli and Turkish perception of what is the political instrumentality of the pipeline is a first indication of divergence in what should be a process of convergence. In essence Turkey is likely to demand from Israel far more than what Tel Aviv may be willing to concede in order to act as a market for Israeli gas exports. In addition to this important difference there are serious disagreements on several parts of the preconditions Turkey had set in order to re-establish full diplomatic relations with Israel.

For almost three years after the Mavi Marmara incident Erdogan demanded three pre-requisites from the Israelis in order to re-normalize Turkey's bilateral relationship with its former ally: (a) that a formal apology is issued by the Israeli Prime Minister, (b) that families of the victims are compensated and (c) that the blockade of Gaza is lifted. From these preconditions, Tel Aviv did not agree to the third one, agreed in principle with the second and partially fulfilled the first. There has been no lifting whatsoever of the Gaza blockade.

Tel Aviv is offering to pay \$100,000 to the families of each victim provided that all civil and criminal charges against its soldiers and the State of Israel are dropped in Turkey's courts and the apology Mr. Erdogan got was as informal and "unapologetic" as it could have been. In effect multiple indications suggest that Netanyahu did not call Erdogan but granted Obama's request as a gesture of goodwill in order to break the ice in his own personal relationship with the recently re-elected -at the time-U.S. President during Obama's first official visit to Israel. What the Israeli PM did after he talked to Erdogan speaks volumes of his decision to keep the rapprochement process going at a glacial pace, estimating that the Turkish Prime Minister would do something provocative enough to stop the process in its tracks.

Mr. Erdogan's announcement on 27 June 2013 that he would be visiting Gaza on 5 July 2013, as well as the statement by Turkey's Vice-Premier Bulent Arinc that the Jewish Diaspora was behind the anti-AKP demonstrations that rocked Turkey in June 2013, undercut the efforts of Turkish and Israeli diplomats who wanted to keep the rapprochement process alive. Most importantly though, Mr. Erdogan's sensational accusations that Israel orchestrated the coup d'état which overthrew Mohammed Morsi from the presidency of Egypt in August 2013, seem to confirm Israel's worries that Turkish policies and objectives are driven by neo-ottoman ideologies.

These ambitions are bringing Ankara closer to the Muslim Brotherhood parties that have sprung around the Middle East since the revolutions of 2011 and in direct confrontation with the Wahhabis of Saudi Arabia and the military cast of Egypt. Statements like the ones above by Erdogan and Arinc, or plans to break the Gaza blockade, play into Netanyahu's hands regarding his decision to block the rapprochement process without losing face in Washington. Netanyahu's tactics are essentially pragmatic if one considers the entrenched diversity of Turkish-Israeli interests throughout the Middle East with the partial exception of Syria and Iran. The need to keep a united front over Syria has been the principal reason for the continued US pressure behind the Turkish-Israeli rapprochement.

Although the prospective partition of Syria along ethnic lines and the danger of chemical weapons proliferation as a result of Assad's collapse would have brought Turkey and Israel closer together, what would be the ramification of this alignment be for Cyprus and the region's energy geopolitics? How viable, how solid, and how long-term could such an alignment prove to be? *Can an anti-Assad tactical rapprochement prove to be the basis for a Turkish-Israeli rapprochement? Can Syria actually constitute the "glue in Turkish-Israeli relations"?*<sup>6</sup> *The short answer is that this is unlikely because Turkey's role in a post-Assad Syria cannot guarantee any vital Israeli interests in Syria.*

To start with, it is quite unclear what would be the operational content of an anti-Syrian alignment for Turkey and Israel. It is true that neither side wants to remain idle as Syria's ethno-religious war spreads into Lebanon and increases the likelihood that Assad's bio-chemical weapons fall into the hands of Salafist zealots which are growing more powerful as the civil war continues. Yet Tel Aviv and Ankara give very different answers on the critical question of regime change. Israel would prefer stability and would not like to see Syria transformed into a battleground between Salafists, elements of the Muslim Brotherhood and whatever Shi'a/Christian coalition survives the potential fall of the Assad regime.

The risk of this development after the fall of Mubarak in Egypt is too significant for Tel Aviv to take and here lies the fundamental difference in the Turkish and Israeli perspective: *the fall of Mubarak was a strategic accident of the first degree for Tel Aviv, but from Mr. Erdogan's point of view it was an opportunity for the promotion of his Neo-Ottoman agenda who forced him to stand by Mr. Morsi even as the Egyptian military was uprooting the Muslim Brotherhood's government from power.*<sup>7</sup> The divergence of Turkish and Israeli interests vis-à-vis the military-backed government in Egypt, is also bringing Cairo closer to Tel Aviv as both drift (even) further away from Ankara.

The continued deterioration in Turkish-Egyptian relations after the fall of Mr. Morsi is also manifested by the indefinite recall of the Turkish and Egyptian ambassadors from the respective capitals of the two states in late November 2013. This diplomatic break-down followed statements made by the Turkish Prime Minister who noted on TV that he "will never respect those who come to power through military coups". Erdogan openly sided with the Egyptian Muslim Brotherhood and its continued struggle to restore Mr. Morsi to office.

Erdogan chose to make these statements as the Muslim Brotherhood was preparing to mobilize thousands of its supporters over the weekend in order to force the liberation of Mr. Morsi. The new military-backed transitional government in Cairo accused Mr. Erdogan that he was "attempting to influence public opinion against Egyptian interests, supported meetings of organizations that seek to create instability in the country" noting that senior members of Mr. Morsi's party have been meeting in Turkey for planning purposes since the coup d'état of July 2013.<sup>8</sup>

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<sup>6</sup> Hubner & Tocci, *ibid*, p.7

<sup>7</sup> On 14 July 2013 Erdogan stated that "Currently my President in Egypt is Morsi because he was elected by the people", "My President is Morsi' Says Turkish PM Erdogan", *Today's Zaman*, 14/7/2013.

<sup>8</sup> "Egypt Expels Turkish Ambassador following Prime Minister Erdogan's call for the release of Mohammed Morsi", *The Guardian*, 23/11/2013, "Erdogan Slams Egypt's Army-backed Rulers after



Despite their differences over Egypt, both Turkey and Israel would welcome -although for different reasons- the drastic curtailment of Iranian influence in Lebanon through the isolation of Hezbollah, a development that would make relations between Ankara and Shi'a-controlled Baghdad even more hostile. Israel has already indicated more than once that it would unilaterally intervene in the Syrian civil war whenever it deems it necessary for the protection of its national interests.

Tel Aviv has attacked twice -in January and May 2013- convoys of Iranian weaponry that were allegedly en route to Hezbollah<sup>9</sup> and selectively bombed installations of Assad's armed forces related to the regime's alleged weapons of mass destruction-WMD programme *even before* the Civil War started. Israel is remaining selectively neutral in the Syrian civil although this neutrality has a pro-Assad effect since Tel Aviv is not putting any real pressure against the Assad regime and does not support the opposition in any tangible way.

This is a major difference in the way Tel Aviv and Ankara view the continuing civil war in Syria. If Assad survives, Turkey loses all influence, at least for the foreseeable future. If Assad survives Tel Aviv will be more comfortable in dealing with the "devil it knows" rather than having to face a new unstable regime that is more likely to be closer either to the Wahhabis of Saudi Arabia or the Egyptian Muslim Brotherhood.

Turkey is in essence unable to guarantee any vital Israeli interest in a post-Assad regime for several years to come. The reasons are straightforward. What would succeed Assad in Syria is chaos, probably larger than Iraq's chaos in 2003 given the *de facto* partial regionalization of the war following Hezbollah's active engagement in the battle of al-Qusayr in early 2013. After the chaos -if Syria is not partitioned along ethnic-religious lines- any government that would emerge is highly unlikely to be less anti-Israeli than Assad's regime.

To the contrary, even if the Salafist elements of the SLA (Syrian Liberation Army) are somehow sidelined, the new government, even if it is a secular one, would be prone to use the only national card able to unite the various factions and this card can only be the Golan Heights issue. Ankara is unlikely to be able to influence such a government towards a settlement with Israel even if it wanted to.

Turkey, under the leadership of Mr. Erdogan and his Foreign Minister Professor Ahmet Davutoglu, has invested most of its diplomatic capital in the Middle East in its efforts to drive Assad from power but *it is not likely to be the most powerful foreign player in any post-Assad regime even if Assad collapses*. Although Turkey has been the principal conduit for arms and supplies to the SLA, Saudi Arabia and Qatar remain the SLA's major financiers and will vehemently oppose any efforts on the part of Mr. Erdogan to either use its military forces to drive Assad out of power or turn the post-Assad regime into a Turkish protectorate.

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Cairo Expels Turkish Ambassador", *Reuters*, 23/11/2013. & Kareem Fahim & Sebnem Arsu, "Egypt Expels Turkey's Ambassador, Further Fraying Diplomatic Ties", *The New York Times*, 23/11/2013.

<sup>9</sup> Yoel Guzansky, "Thin Red Lines: The Syrian and Iranian Contexts", *Perceptions*, Vol.16/Iss.2 (August 2013), [The Institute for National Security Studies-INSS](#), p.25

Consequently, whatever benefits Israel would want to secure from a post-Assad regime, such as the resolution of the Golan issue or the elimination of Hezbollah, Turkey cannot simply provide, even if it wanted to. More importantly Turkey is unlikely to provide any tangible military support to Israel if it decides to attack Iran unilaterally, a prospect that remains highly unlikely as long as Barack Obama remains the occupant of the White House, especially following the November 2013 interim six-month agreement.

This Pact loosened the international sanctions regime against Tehran in exchange for the partial freeze of Iran's nuclear weapons programme. A relaxation of tensions between Iran and the West is also expected to weaken the pressure of the US on Israel to reach a compromise agreement with Ankara. Such a compromise has become even more difficult after the return of Mr. Avigdor Lieberman at the helm of the Israeli Foreign Ministry in early November 2013.<sup>10</sup> Mr. Lieberman, the head of the far-right Yisrael Beytenu party which joined Mr. Netanyahu's Likud during the last general elections of February 2013, has been the most outspoken critic of the rapprochement process with Turkey.

Following the Mavi Marmara incident, Mr. Lieberman has been one of the most anti-Turkish proponents inside the Israeli cabinet who proposed in September 2011 that Tel-Aviv aid the PKK terrorist organization in retaliation to Turkey's expulsion of Israeli diplomats and its boycott on the purchasing of Israeli weaponry in late 2011. More recently, in what appears to be a mutually reinforcing bipolar relationship, Mr. Lieberman said that Erdogan's statements that accused Israel of organizing the anti-Morsi coup d'état was another indication of the Turkish PM's "Nazi Anti-Semitist propaganda".<sup>11</sup>

Even shortly before his re-appointment as Foreign Minister, Mr. Lieberman urged all interested parties to "stop deluding themselves about Turkish-Israeli relations". On 13 October 2013 Lieberman posted on his *Facebook* account the following statement which should end -at least for the foreseeable future- the debate on the dynamics of the Turkish-Israeli "rapprochement": "I have no intention of improving relations with Turkey... My opposition to apologizing to Turkey is not new, and I expressed it clearly before and after it happened. I reasoned and explained that it will not improve relations between the countries but will only harm Israel's standing in the region and play into the hands of extremists in the Middle East, with Turkey under Islamist extremist [President Recep Tayyip] Erdogan among them".<sup>12</sup>

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<sup>10</sup> "Avigdor Lieberman Sworn Back In as Israel's Foreign Minister", *Haaretz*, 11/11/2013.

<sup>11</sup> (For PKK) "Netanyahu's Office Distances itself from Lieberman's Planned Measures Against Turkey", *Haaretz*, 09/09/2011. Mr. Lieberman's exact statement was that "'Anyone who has heard the words of Erdogan, which were full of hate and incitement, recognizes no doubt that we are dealing with a successor of [Nazi Minister of Propaganda Joseph] Goebbels," said Lieberman. "His conspiracy theories are of the same nature as the Dreyfus Affair and the hateful blood-libel 'The Elders of Zion'", 23/08/2013, <http://www.israeltoday.co.il/NewsItem/tabid/178/nid/24073/Default.aspx>.

<sup>12</sup> Lahav Harkov, "Let's Stop Deluding Ourselves about Israel-Turkey Relations", *Jerusalem Post*, 19/10/2013, <http://www.jpost.com/Diplomacy-and-Politics/Lieberman-Lets-stop-deluding-ourselves-about-Israel-Turkey-relations-329154>

As long as Turkey would continue to oppose the utilization of its territory as a platform for a pre-emptive strike against Iranian nuclear sites there is no real ground for a Turkish-Israeli rapprochement that would reverse the existing hostility between the region's principal U.S. allies and force Israel to make strategic concessions to Turkey. Even if Turkey were to make such an impressive about-face in its policy towards Israel, the benefits to Israel are not likely to be so important so as to force changes in its policy vis-à-vis Greece and Cyprus like the ones described in the beginning of this chapter. Moreover, the possibility of a joint Israeli-Turkish military strike against Iran without U.S. participation is close to impossible for the foreseeable future.

There is no serious indication whatsoever that Israel would be ready or willing to revise its (energy) policy vis-à-vis Cyprus or withdraw from the Republic's energy development at the behest of Turkey. As it was clearly manifested by the visit of Ministers Kassouledes (Foreign Affairs) and Lakkotrypes (Energy) to Jerusalem (April 2013) and the visit of President Anastasiades in May 2013, Tel Aviv will continue to defend the validity of the 2010 EEZ agreement and fully support the active participation of the Delek Group in the development of the Aphrodite gas field, although it is not yet clear whether Israel would permit the liquefaction of Leviathan gas in Cyprus' planned Vassilikos LNG plant.

In the military level, Israel did not neutralize or annul its cooperation agreement with Cyprus that allows it to deploy *Apache* helicopters in Cypriot military bases. On 20-21 March 2013, U.S., Israeli and Greek naval assets conducted for a third consecutive year the combined *Noble Dina* exercises in the international waters within Cyprus' EEZ. There is also no indication from the Knesset or the Israeli cabinet regarding the lifting of the arms embargo which was imposed on Turkey in 2010, while on 22-25 April 2013 Israel sent five ships including a gun boat to Larnaca in order to conduct joint anti-terrorist exercises with the limited assets of Cyprus' navy. Israel also planned Search & Rescue exercises with Greece and Cyprus in October 2013.<sup>13</sup>

Israel may also be willing to take a larger share of the responsibility for the protection of the Vassilikos LNG terminal as long as there is a stronger show of support and commitment from Greece, Italy and France. The potential sale of two L'Adroit type corvettes to the Cypriot Navy and the leasing of two OPV-class heavy patrol boats from the Israeli navy, as announced by Cypriot Defense Minister Fotiou in May 2013 would constitute a clear indication that a tripartite alignment is under formation in order to protect Cypriot hydrocarbon resources and their respective production/export infrastructure against asymmetric threats such as terrorism and strategic sabotage.

This alignment is not of course directed against Turkey or the Turkish-Cypriots, but it is necessary to guarantee the emergence of Vassilikos as a regional LNG export hub that could eventually export gas to Turkey via a pipeline following the comprehensive resolution of the Cypriot Question. The cumulative result of these trends was illustrated by two major developments which attest to the deepening of Israel's energy relations with both Cyprus and Greece to the potential political detriment of the Turkish-Israeli pipeline at least as long as this pipeline is planned to cross through Cyprus' EEZ:

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<sup>13</sup> <http://famagusta-gazette.com/cyprus-greece-and-israel-to-conduct-search-and-rescue-exercises-p19636-69.htm> (accessed on 23/8/2013)

(1) On 26 June 2013, Delek Drilling and Avner Oil & Gas signed a MoU with the government of Cyprus regarding the construction of the Vassilikos LNG terminal, almost 48 hours after the Israeli cabinet confirmed the decision of Prime Minister Netanyahu to export 40% of Israel's cumulative gas reserves equal to almost 380 bcm. The fact that the two Delek Group companies were the leading interlocutors and business proponents of the Turkish-Israeli pipeline on the Israeli side is indicative of the progress made so far by the champions of the Turkish-Israeli rapprochement.<sup>14</sup>

(2) On 8 August 2013, Israel signed with Cyprus and Greece a tripartite Memorandum of Understanding that committed all three sides to work together in all sectors of the hydrocarbons industry including the development and transportation of oil & natural gas. Although no specific gas export project was mentioned in the MoU the agreement was characterized as historic by all sides and at the very least its signing attests to the deepening cooperation of the three East Mediterranean states.

The apparent commitment of Delek to the Vassilikos terminal essentially excludes Cyprus (and its EEZ) as a potential route for the Turkish-Israeli gas pipeline and increases the pressure on the Israeli government to send the majority of Leviathan's exports for liquefaction in Cyprus. *Delek's decision does not exclude the construction of a pipeline to Turkey. It excludes the possibility that such a pipeline would cross via Cyprus' EEZ as long as the Cyprus problem is not resolved.*

Nevertheless it is important to note that what Delek does not seem to have fully understood is that *any* export option to Turkey would exclude it from the development of Aphrodite at essentially Ankara's behest. *From a political point of view it would be impossible for Delek (and Noble) to export gas to Turkey and simultaneously participate in the development of Aphrodite, given Ankara's decision to block any commercial cooperation with any IOCs (International Oil Companies) that operate in Cyprus' upstream sector.*

Would Ankara exempt Delek and Noble from its own boycott policy?<sup>15</sup> Not likely. If Delek & Noble chose to export to Turkey via the occupied EEZ and/or the occupied territory of the Republic of Cyprus, do they really think that their shares in the Aphrodite field will not be expropriated by Nicosia on grounds of national security? Israel's reactions and choices will determine the way, the speed and the costs for the development of Cyprus' own export strategy since Cyprus does not currently have the proven reserves of natural gas that are sufficient to construct even one LNG export train.

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<sup>14</sup> The main champion of the Turkish-Israeli pipeline on the Turkish side is TURCAS

<sup>15</sup> Ankara announced in April 2012 that it would boycott the investment of any company active in the Cypriot EEZ who would also like to participate in Turkey's oil & gas industry. In March 2013 following the awarding of Cypriot Blocks 2, 3, & 9 to the ENI/Kogas consortium, Turkey announced that it had eliminated ENI from its participation in the non-existent Samsun-Ceyhan Oil Pipeline.

None of these energy-related opportunities would have ever existed though if Cyprus and Greece had not moved closer to Israel in the aftermath of the Mavi Marmara Incident. The second chapter of this study will analyze the process of Greek-Israeli rapprochement in the historic context of the post-Cold War era in order to (a) further illustrate the divergence of Turkish-Israeli strategic interests compared to the solid alliance of the mid-1990s and (b) identify the exact status of Greek-Israeli cooperation while assessing the dynamics of its future development.

## 2. Greek Interests & Challenges: Filling the Vacuum?

The sudden flourishing of Greek-Israeli relations following the *Mavi Marmara* incident of May-June 2010 may be unprecedented when considering the depth and speed of this *rapprochement*, but this is hardly the first time that Athens and Tel-Aviv have tried to mend fences in their nearly sixty-five years old history. Even before the full diplomatic normalization of their relations, which took place in 1990 and opened the way for the 1994 military cooperation agreement, there were several attempts, which were primarily initiated from the part of the Israeli Foreign Ministry to normalize relations with Athens, at least until the end of the 1970s.

What is notable about these Cold-War era attempts, was that Greece remained consistently and extremely sceptical in considering the full normalization of its relations with Israel, for serious national security interests that varied from the need to protect the populous Greek minority in Egypt, minimize the risk of an Arab oil embargo -especially after 1967- and enlist Arab support for Greece's position in Cyprus especially during the years *preceding* the island's independence from Britain in 1959.

Despite the fact that the validity of these arguments is both dynamic and debatable, their impact gravely affected the quality of Greek-Israeli relations between 1947 and 1981. *Moreover, even though Israel developed a strategic level cooperation with Turkey in the late 1950s, this alliance did not appear to have had a direct negative impact on the Greek-Turkish balance of power nor did it considerably affect Greek interests in the Cypriot Question despite Israel's diplomatic support for Turkey's fight against Enosis, the union of Cyprus with Greece.*<sup>16</sup>

Israel was among the first states to recognize Cyprus and establish full diplomatic relations as early as 1960, while Nicosia was hardly penalized by any Arab state for its *de jure* recognition of Israel. Moreover Israel never legitimized the Turkish occupation over northern Cyprus, nor has it established any kind of diplomatic or commercial relations with the so-called Turkish Republic of Northern Cyprus which is recognized by no other member of the U.N., save Turkey. *In addition to that, the practise of Greek diplomacy vis-à-vis Israel until 1981 was far less hostile that what it was actually perceived to be at the time.* What is really striking though is that after 1981, *at a time when there was no major national security interest impeding the full normalization of Greek-Israeli relations, Athens followed, especially until 1987, its most anti-Israeli policy both in the declaratory as well as in the practical level.*

More importantly this primarily ideologically-driven opposition to Israel carried out by the first PASOK government under Andreas Papandreou, had a far reaching effect that reverberated well into the 1990s. The ideological legacy of the 1980s coupled with an erroneous *perception of an Arab penalization against Greece, particularly on the Cyprus Question*, led to the collapse of

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<sup>16</sup> As Alexandros Xydis, Greece's former ambassador to Syria noted in 1972 and 1975 there were no real impediments for the normalization of Greek-Israeli relations after 1967. Any differences were confined in the trade and economic sections and did not relate to Turkish-Israeli cooperation. Sergios Zabouras, "Greece-Israel: The Fragile Rapprochement", in Evangelos Horafas & Stelios Aleifantis (eds.), *The Contemporary International System and Greece*, (in Greek), (Stratigikes Ekdoseis: 1999), pp.257-268, p.263.



the Greek-Israeli military cooperation agreement of December 1994 and helped to consolidate the Turkish-Israeli Axis of the mid-1990s.

The major qualitative difference from the Greek point of view regarding the post-Cold War Turkish-Israeli alliance was that -contrary to its Cold War precedents- the 1996 Axis significantly influenced the bilateral balance of power between Greece and Turkey, offering Ankara several strategic advantages against both Athens and Nicosia, while bringing Tel Aviv close to a direct entanglement in the Greek-Turkish confrontation over Cyprus and the Aegean Sea.

As a result of these developments, the latest phase of the Greek-Israeli rapprochement during 1999-2000, was implemented at the initiative of the Greek, not the Israeli government, even though Tel Aviv welcomed the opportunity to rebalance its approach vis-à-vis Turkey a few years before Erdogan's *AK Partisi* revolutionized Turkish politics the same way that the American intervention in Iraq revolutionized the modern Middle East.

This part of the study will offer a concise overview of the three phases of Greek-Israeli rapprochement in 1990-1994, 1999-2000 and since 2010 by illustrating their qualitative differences and analyzing the dynamism of the *post-Mavi Marmara* era. The principal argument of this chapter is that the impressive flourishing of the Greek-Israeli rapport and cooperation after June 2010 may be endangered by the shifting sands of Middle Eastern geopolitics, unless it is founded upon a solid economic/strategic foundation, as well as a clear understanding of the diplomatic limits of such a cooperation.

## 2.1 Promise Unfulfilled: The “Lost” 1990s and the Costs of the Turkish-Israeli Axis

The removal of the Soviet Union as a player in Middle Eastern geopolitics after 1991 along with the destruction of Iraq's ability to militarily coerce its neighbours after the end of the Gulf War, created a much more fluid balance of power that structurally weakened Israel's immediate opponents, thereby preparing the ground for the ensuing Oslo Peace Accords.

As a result of Saddam's successful containment and the disappearance of Soviet support for Israel's enemies, Tel Aviv felt powerful enough, (and the U.S. felt powerful enough to press Tel Aviv), to make considerable progress in its “Peace Fronts” that resulted in the establishment of the Palestinian Authority through the Gaza-Jericho Agreements in May 1994 and the signing of Israel's second Peace Treaty with an Arab state, namely the Hashemite Kingdom of Jordan in October 1994.

Within this context neither Greece nor Turkey were particularly reluctant to engage Israel. Turkey formally reopened its embassy in Tel Aviv in December 1991<sup>17</sup> almost 1½ years *after* Greece granted Israel *de jure* recognition but that was primarily a result of Ankara's engagement in the U.S.-led War for the liberation of Kuwait and the fluid geopolitical situation of the early post-Cold War period in the Middle East that left open the possibility for the formation of a greater anti-Kurdish coalition between Syria, Turkey and Iran.

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<sup>17</sup> Meliha Altunisik, “The Turkish-Israeli *Rapprochement* in the Post-Cold War Era”, *Middle East Studies*, Vol.36/Iss.2 (April 2000), pp.172-191, p.175, Heinz Kramer, *A Changing Turkey: The Challenge to Europe and the United States*, (Brookings Institution Press: 2000), p.131, & Phillip Robins, *Suits and Uniforms: Turkish Foreign Policy Since the Cold War*, (Hurst & Co.: 2003), p.248.

That coalition, which collapsed very quickly due to Syria's confrontation with Turkey, was supposed to counter the rising threat of a *de facto* independent Kurdish state in Northern Iraq, even though Turkey tried to sustain some sort of rapprochement with Syria primarily due to U.S. and Israeli pressure until 1995. According to Ofra Bengio, the Oslo Peace Process "gave Turkey outward legitimacy for initialling its own moves towards Israel, but the real motives and incentives were to be found in the changes in the region at the beginning of the 1990s, the way in which the Turkish Military interpreted them and the role it played in the renewed relations with Israel".<sup>18</sup>

The principal change, which would lead to the Turkish-Israeli axis from Ankara's point of view, was of course the possibility for the emergence of a much more hostile Syrian regime that would be able to strategically utilize the PKK as a means of subverting Turkish sovereignty across its southern flank without the fear of Saddam Hussein's reaction and without the pressure of having to deploy the bulk of its armed forces against a potential Israeli threat along the Golan Heights.

An Israeli peace settlement with Syria was at the time perceived as an anathema for Turkey's regional security. From the Greek point of view, what is important to underline from the early 1990s is that the government of Konstantinos Mitsotakis, which played a major role in the full normalization of Greek-Israeli relations, did not follow up on the dynamic it had created. That was primarily a result of necessity, not of choice. Absorbed by the disintegration of Yugoslavia and the immediate problems it created for Greece's relations with Albania and F.Y.R.O.M., Greek diplomacy treated the entire Middle East, and in particular its relations with Israel, as a secondary priority.

The only notable exception was the signing in 1992 of a general agreement on cultural, educational and scientific cooperation that led in December 1994 to the establishment of a Greek Studies Department in the University of Haifa funded by the Onassis Foundation.<sup>19</sup> Turkey on the other hand lost no time in its pursuit of a comprehensive partnership with Israel that until 1994 did not include a major military cooperation parameter and had not transformed into a fully fledged strategic alliance as it happened after 1996.

During 1992-1994 the most rapidly expanding sector of Turkish-Israeli relations was the commercial one, as both sides remained reluctant to engage each other on the military front, at least not openly and at least not until there was a serious chance for a Golan Peace Accord, even though that was a primarily Israeli concern. *It is notable that as late as January 1994, Israel's President Ezer Weisman publicly prompted Turkey to mediate between Israel and Syria so as to improve their relations.*<sup>20</sup>

As Meliha Altunisik notes, "initially especially economic relations took off. The volume of trade increased 156 percent between 1992 and 1994...During this period the number of Israeli tourists visiting Turkey increased considerably. Negotiations for the signing of agreements on the

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<sup>18</sup> Ofra Bengio, *The Turkish-Israeli Relationship: Changing Ties of Middle Eastern Outsiders*, (Palgrave: 2004), p.80.

<sup>19</sup> John Sakkas, "Greece, the Arab World and Israel: A Troubled Triangle in the Eastern Mediterranean", *Defensor Pacis*, Vol.20, (March 2007): pp.95-104, p.100.

<sup>20</sup> Altunisik, *ibid*, p.177.

prevention of double taxation, encouraging investment and a free trade agreement, which eventually was signed in 1996, started...However, despite the occasional mention of political and security cooperation, especially the Turkish side was reluctant to talk about this at least openly...In October 1992 the General Secretariat's Office of the [Turkish] Joint Chiefs of Staff declared that the Turkish-Israeli relations did not involve anything of a military nature. The declaration further stated that 'In light of the realities of the Middle East, Turkey, which is an Islamic and secular country, is careful to balance its relations with Israel and the Arab World'.<sup>21</sup>

It is thus not coincidental that the first ministerial-rank official who visited Israel after twenty-seven years in 1992, was Abdulkadir Ates, Turkey's Minister for Tourism.<sup>22</sup> *What prompted Turkey to unbalance its relations with the Arab world resulted from the collapse of the Golan Peace Talks and Syria's increased support for PKK guerrilla incursions along Turkey's south-eastern borders.* Syria had aided and abated the PKK since the early 1980s and it was only after a 1987 agreement between Hafez al-Assad and Turkey's Prime Minister Turgut Ozal that Assad was forced to send PKK's leader, Abdullah Ocalan to the Beka'a valley in Lebanon.

Despite Syria's promises to cooperate with Turkey on the confrontation of the PKK threat, Assad never stopped utilizing the Kurdish militant organization as a powerful leverage against Ankara in order to pressure Turkey over an array of issues from Syrian irredentist claims over the Hatay province to Turkish attempts to control the flow of the Tigris and Euphrates rivers through the construction of several dams and hydro-power plants known collectively as the GAP project. Indeed the incursion of PKK guerrillas in Hatay during August-September 1995 may have galvanized Turkey to ally itself with Israel.<sup>23</sup>

The stabilization of the Kurdish enclave in Northern Iraq over 1993 and 1994 only succeeded to increase Turkey's fears as Syria refrained from effectively undermining PKK operations. As Syria remained as recalcitrant as ever in the Golan "Peace" Front, Israeli strategists, led by David Ivry,<sup>24</sup> Director General of the Ministry of Defence, started to seriously examine the possibility

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<sup>21</sup> Altunisik, *ibid*, p.175-176.

<sup>22</sup> George Mourtos, *Turkey-Israel and the Eclipse of Greece from its Physical Space*, (in Greek), Athens, (Epikoikonies Publications: 1999), p.49.

<sup>23</sup> The Hatay province was effectively ceded by colonial France to Turkey in 1938 when France did not oppose the deployment of Turkish forces in the Sanjak of Iskenderun that resulted in the exodus of the province's majority Arab population. Damascus never recognized the cessation of renamed Hatay province once it acquired its independence in 1946. For the G.A.P. project and Syria's reaction that was endorsed by a decision of the Arab League in December 1995. see Kramer, *A Changing Turkey*, *ibid*, pp.133-141 & Robins, *Suits & Uniforms*, *ibid*, pp.229-238. On P.K.K. attacks in Hatay, Altunisik, *ibid*, p.179. The water issue is of particular significance for the future of any Turkish-Arab relationship. As Kramer notes "although exact calculations are difficult to make because of the volatility of the many variables involved, there are estimates that in its final stage GAP will reduce the Euphrates flow by 30 to 50 percent. This would result in an almost unbearable loss of water for Syria and Iraq", *ibid*, p.137.

<sup>24</sup> David Ivry emerged as the pivotal figure in the promotion of the Turkish-Israeli axis. Ekavi Athanassopoulou, "Responding to a Challenge: Greece's New Policy Towards Israel", *South East European and Black Sea Studies*, Vol.3/Iss.1 (January 2003), pp.108-125, p.115 & George Mourtos,

of revitalizing the Axis of the 1950s by introducing a strong military/security component that was to dominate the nature of the alliance well into the mid-2000s. The first step in this direction was taken during the visit of Turkish Foreign Minister Hikmet Cetin to Israel in November 1993 when the two states signed their first comprehensive agreement titled *Memorandum of Mutual Understanding and Guidelines for Cooperation* which was followed in March 1994 by the *Secret Security Agreement* that constituted the cornerstone for the burgeoning military cooperation that ensued.

The first concrete step taken by the two states in that direction was the announcement in November 1994 of a military cooperation agreement initialled during Prime Minister Tansu Ciller's visit to Israel that allowed "the Israeli aviation industry to modernize Turkish Phantom jets. This was the beginning of a series of military deals".<sup>25</sup> At this critical juncture the government of Andreas Papandreou, who had returned to office in October 1993, decided to intervene in an attempt to pre-empt the negative geostrategic ramifications of a reinstated Turkish-Israeli alliance for Greece, which seemed to be willing to play a significant role in regional geopolitics.

Athens was indeed encouraged to pursue such a policy of engagement by the United States<sup>26</sup> and tried -initially- to appear as an equidistant arbiter between Syria and Israel, since Greek-Israeli relations were fully normalized and since -contrary to the nearly open hostility between Ankara and Damascus- Athens had nothing to divide with the Syrians. The problem with this policy was that Papandreou was either unprepared and/or unwilling to follow this neutral approach to its logical conclusion.

Greek policy was not well balanced internally at a time when Papandreou due to his aggravated health condition was unable to personally supervise all the aspects of such a complex balancing act, which was inaugurated in December 1994 by the signing of an unprecedented military cooperation agreement between Israel and Greece that called for the exchange of military information, the conduct of joint air and naval exercises as well as the procurement of Israeli weaponry for the Hellenic Armed Forces.

In particular the IAF (Israeli Air Force) was very interested to participate in the Greek tender for the modernization of the country's F-4E fleet, the exact same contract Israel had agreed to undertake a month before Greek Defence Minister Yerasimos Arsenis signed what would have been a potentially historic defence agreement with his counterpart and Israeli Prime Minister Yitzhak Rabin.

At this critical point Papandreou decided with U.S. encouragement to visit Syria and Jordan in January 1995. The trip was supposed to restart the frozen Syrian-Israeli Peace Process but did not succeed in gaining any traction, even though Assad did promise Papandreou that *if* a Golan

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*Turkey-Israel and the Eclipse of Greece from its Physical Space*, (in Greek), Athens, (Epikoikonies Publications: 1999), p.45.

<sup>25</sup> Altunisik, *ibid*, p.178

<sup>26</sup> Zaboras, *ibid*, p.265.

Peace Accord would be signed he would be happy to sign it in Athens.<sup>27</sup> The Greek Prime Minister then visited Jordan in order to stress his support for King Hussein's 1994 Peace Accord with the Israelis but in an indication that a Realpolitik approach would not govern his government's overtures vis-à-vis Tel Aviv, Papandreou did not also visit Israel. Moreover, the real trouble for the nascent Greek-Israeli military agreement, which was enthusiastically supported by Arsenis and the Greek General Staff, were soon to start after Papandreou's return to Athens. As Dr. Athanassopoulou notes, "the agreement faced a strong reaction from many in PASOK who opposed it along the lines of the party's traditionally pro-Arab policy. Reaction also came from the Arabs...Andreas Papandreou received a personal phone call from Syrian President Assad who expressed his disappointment over Greece's agreement with Israel. As a result the accord was never implemented and the idea of cooperation with Israel was shelved".<sup>28</sup>

In early 1995 the cost of such a choice was difficult to prognosticate and as it turned out the potential benefits were subsequently underestimated. Greece of course could only play a secondary mediating role between Israel and the Arabs and it did manage to break some of the ice between Israeli and Palestinian opinion-makers and academic leaders through the organization of a successful second-track diplomacy process called "the Athens Dialogue" that was often held in Delphi.<sup>29</sup>

The important thing to note here is that once Greece entered the main Middle East "stage" it did not keep its nerve and thus eventually failed to counter-balance the dynamic of the Turkish-Israeli alliance. It is difficult to judge and dangerous to criticise any major policy failure *after* the effect. In all probability the Turkish-Israeli alliance, which primarily targeted Syria, would have flourished anyways regardless of Greek behaviour, once the Assad regime opted to abandon the Golan Peace Talks.

Yet, what Greece did and did not do during 1995 removed any significant Israeli hesitation from the pursuit of a strategic alliance with Turkey after the collapse of the Labour-led government of Shimon Peres and the Oslo Peace process in the spring of 1996.<sup>30</sup> Most importantly Greece cultivated the perception that it not only shelved the 1994 Military Agreement with Israel but at the same time promoted its military cooperation with Assad's regime by opting to sign a military pact with Syria in December 1995. In essence the agreement -if it actually existed- did not offer anything to Syria that it had not already offered to Israel a year earlier, but what really damaged Greece's standing with Tel Aviv was the erroneous perception that the Greek-Syrian accord would allow for the utilization of Syrian airfields against Ankara in case of a Greek-Turkish war over Cyprus.

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<sup>27</sup> Zabouras, *ibid*, p.265 and Stratis Liarelis, "Premier: Syria Talks Satisfactory, 'Restrained Optimism'", *Athens News Agency/ANA*, 07/01/1995.

<sup>28</sup> Athanassopoulou, *ibid*. p.112.

<sup>29</sup> Apostolos Agnantopoulos, "Greece and the Palestinian-Israeli Conflict: A Discursive Constructivist Perspective", *Mediterranean Politics*, Vol.12/Iss.3, (November 2007): pp.359-379, p.361.

<sup>30</sup> Athanassopoulou notes that Simon Peres "asked Athens for military cooperation after his government had concluded the military training agreement with Turkey [September 1995], but the Greek government declined and bilateral relations failed to develop", *ibid*, p.112.

This perception, which was a product of misinformation and was repeatedly refuted by both the Greek and Syrian governments throughout 1996,<sup>31</sup> in combination with (a) the very serious Turkish-Syrian crisis of June 1996 during which Syria amassed around 40,000 troops along its northern borders, and (b) the collapse of the Golan Peace Process after January 1996,<sup>32</sup> cemented a strategic rapprochement at the heart of which lied an unprecedented level of military and intelligence cooperation between Ankara and Tel Aviv.

Contrary to its historical precedents, and despite the fact that the main target of this alliance was to isolate Syria and contain Iran, Greece and Cyprus paid indirectly a heavy geopolitical price for the decision of Andreas Papandreou to reverse his initial Realpolitik approach when he attempted to introduce Greece as a significant player in the politics of the Near East. Following this reversal, Turkish-Israeli relations flourished and increasingly focused on the procurement of advanced weaponry, intelligence sharing and joint military training particularly between the Air Forces of both states.

The militarization of the Axis overshadowed its commercial and economic parameters despite the near quintupling of their bilateral trade volume from \$202 million in 1993 to almost \$ 1 billion in 2000 and its further increase by more than three times to a volume of \$3.3 billion by 2010, following the signing of the Free Trade Agreement between Turkey and Israel in 1997.<sup>33</sup> This militarization was also a direct result of the Alliance's domestic political significance for the Turkish General Staff, especially after the rise to power of Mr. Erbakan's Islamist *Refah Partisi*. The repercussions of this militarization not only brought Turkey at the brink of War with Syria in late 1998, but threatened to directly involve Israel in the strategic entanglements of the Greek-Cypriot-Turkish triangle, something Tel Aviv neither wanted, nor did it anticipate when it forged its alliance with Ankara.

As Professor Robins notes “distracted and preoccupied by domestic ideological developments, the Turkish General Staff used the relationship with Israel as a masculine demonstration of its primacy in the strategic orientation of the Turkish state, and as a deterrent to any Islamist politicians at home, who were at all inclined to change the nature of foreign relations. The result was the distortion of a broad-based bilateral relationship into what increasingly appeared to be a defence dominated axis and a surge in regional tension, an unease born of the open secrecy and exclusive nature of the agreement”.<sup>34</sup>

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<sup>31</sup> Ibid, p.112, Zaboras, *ibid*, p.267, & Altunisik, *ibid*, p.180, note 26.

<sup>32</sup> Dr. Robins notes that “In retrospect we can see that an Israel-Syrian breakthrough was close on two occasions, in August 1993 and January 1996, and by 1997 Damascus was widely believed to have regretted not having gone that bit further to clinch a deal”, *ibid*, p.255.

<sup>33</sup>Robins, *ibid*, p.249 and Kramer, *ibid*, p.131. For the 2010 figures, <http://www.israeltrade.org.tr/content/view/354/1/>

<sup>34</sup> Robins, *ibid*, p.242



It is notable that the most important military agreements were signed during the tenure of the Ciller-Erbakan coalition government. In February 1996 Turkey and Israel signed their first comprehensive Military Training Cooperation Agreement followed in August 1996 with a Military Industry Cooperation Agreement that opened the way for the procurement of advanced weaponry for the TAF (Turkish Air Force) including the nearly \$900 million contract for the upgrading of Turkey's F-4 Phantom and F-5 fleet which was signed in December 1996.<sup>35</sup>

The February 1996 Agreement, which was publicized in April 1996 -according to the Israelis-without their consent and at the behest of Turkey's Deputy Chief of the General Staff, General Cevik Bir,<sup>36</sup> called for the conduct on an annual basis of eight joint exercises between the IAF and the TAF, including ground staff training, and provided Israel with emergency landing rights inside Turkey granting it much needed strategic operational depth. The IAF would also be able to count on TAF's logistical support that would be provided in several airports throughout Southeastern Turkey, and especially the airfields in Konya and Incirlik.<sup>37</sup>

Part of the F-4P modernization programme included an agreement for the procurement of the long-range air-to-ground missile Popeye-I that led in August 1996 to the signing of a co-production agreement worth around \$150 million regarding Popeye-I. That agreement was subsequently extended in 1997 to include the manufacturing of the Popeye-II surface-to-air missile and was reportedly worth another \$200 million. Moreover in 2001 Israel agreed *in principle* to let Turkey purchase the long-range anti-ballistic missile system Arrow-2,<sup>38</sup> which it was developing with the U.S., a prospect that has been blocked by the U.S. itself.

In March 2002 Israeli defence company Elbit Systems and the IAI (Israeli Aircraft Industries) won a tender worth \$687 million for the modernization of 170 M60A1 main battle tanks. The contract which was completed in 2010 constituted the largest procurement agreement between Turkey-Israel after the F-4/F-5 upgrading deal. Finally the Turkish military profited significantly from the purchase of 10 UAV Heron worth \$183 million. The final Heron UAV was delivered in August

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<sup>35</sup> The \$800 million agreement for the upgrading of 54 F-4s was signed in December 1996 along with another \$75 million contract for the modernization of 48 F-5s that was finalized in 1997. Robins, *ibid*, p.263 & Athanassopoulou, *ibid*, p.110. Robins noted in 2000 that "owing to metal fatigue the planes are expected to end their working life in 2010.

<sup>36</sup> *Ibid*, pp.259-260. Bir did not even deem it necessary to inform the Turkish Ministry Foreign Affairs (MFA) of his impending revelation of the February '96 agreement. On 16 April 1996 the Turkish MFA publicly stated during a press conference that the Agreement did not offer IAF landing rights nor did it allow the IAF to use Turkey's airspace for training purposes. The Turkish General Staff appears to have leaked the document to the press the following day after the MFA's press conference on 17 April 1996.

<sup>37</sup> Antonia Demou (in Greek), *The Greek-Israeli Defence Cooperation: Melting the Ice*, *Defence Analyses Institute*, Briefing Note # 400 (October 2001), p.2.

<sup>38</sup> Athanassopoulou, *ibid*, p.110-111.

2011.<sup>39</sup> From the aforementioned advanced weaponry only the UAVs (Unmanned Air Vehicles) could have a primary operational application against the PKK guerrillas. All the other weapons and military programmes would have made sense in the framework of a potential Greek-Turkish or Syrian-Turkish conflagration and were developed or purchased, especially those concerning the TAF, during a period when the Greek-Turkish and Turkish-Syrian balance of power was at a particularly fragile state from 1996 to 1999.

As Turkish-Israeli military ties deepened, Syria and Greece watched with great apprehension while exhibiting no inclination of forming some sort of a counter-balancing alliance both states had denied it ever existed as early as 1996. Both states were thus obliged to confront an increasingly self-confident Turkish military at an era of very high volatility, following the near direct clash of the two NATO members during the Imia Crisis of January 1996 and the military build-up along the Turkish-Syrian border during October 1998.

Apart from the military cooperation level which included extensive air and naval exercises that lasted from 1998 to 2009, Turkish-Israeli relations also flourished in matters of intelligence. According to General Cevik Bir, Turkey gained significantly by the experience of Israeli Special Forces in issues of border control and anti-terror warfare as well as by the sharing of information on the movements of the PKK forces along Turkey's borders with Iran, Iraq and Syria.

Potentially, Israel also shared with Turkey top secret information on the MiG-29, Syria's principal combat aircraft. In exchange, "Turkey agreed to allow the Israeli Defence Forces (IDF) and Israeli security forces to gather electronic intelligence on Syria and Iran from inside Turkey. Reportedly the Israelis set up listening stations in the Turkish-Iranian border area".<sup>40</sup>

Professor Inbar writing in 2001 noted that "the Turkish geographic location and the significant Israeli electronic capabilities create an impressive synergy in data collection. The mere fact that rivals know they are under surveillance is an inhibiting factor in preparing a surprise attack. This adds to strategic stability...One manifestation of the Israeli-Turkish cooperation became known in June 2000. Iran complained that Turkey demanded to be informed about the cargo of Iranian aircraft transiting Turkish airspace *en route* to Syria, obviously a reference to Iranian military equipment being sent to Hezbollah".<sup>41</sup>

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<sup>39</sup> Hillel Fendel, "Israel Completes Upgrading of Turkey's Tanks", *Israeli National News*, 04/07/2010, <http://www.israelnationalnews.com/News/News.aspx/136893>, & "UAVs Could End Israel-Turkey Rift", *UPI*, 09/09/2011.

<sup>40</sup> Ekavi Athanassopoulou, *Israeli-Turkish Security Ties: Regional Reactions*, The Harry S. Truman Research Institute for the Advancement of Peace of the Hebrew University of Jerusalem, Occasional Paper #16, (March 2001), p.4. Hadar also quotes senior Middle East correspondent Robert Fisk noting that "Israeli and Turkish intelligence officers have manned joint listening posts on the Syrian, Iraqi, and Iranian borders, sharing information on guerrillas of the Kurdish Workers' Party and Syrian and Iraqi movements". Leon Hadar, "Orienting Jerusalem toward Ankara or Cairo?: Israel's New Geostrategic Debate", *Mediterranean Quarterly*, Vol.12./Iss.3 (Summer 2001), pp.8-30, p.23.

<sup>41</sup> Efraim Inbar, "Regional Implications of the Israeli-Turkish Strategic Partnership?", *Turkish Studies*, Vol.3/Iss.4 (Winter 2001), pp.25-26.

Unfortunately for Greece and Cyprus, Syria and the PKK apparently were not the only targets of the Turkish-Israeli military/intelligence cooperation. Apart from the fact that the military procurement deals created an added pressure in the military balance of power for Greece in the Aegean and Cyprus, the combined effect of the Turkish-Israeli axis and the political capital it bought for Turkey in Washington D.C. created what Professor Inbar characterized as an *Offensive Potential*<sup>42</sup> of the Axis, which was used effectively by Ankara against both Athens and Nicosia regardless of Israeli intentions and assurances.

Syria found itself at the epicentre of a joint Turkish-Israeli pincer strategy that was personally devised by then Israeli Prime Minister Binyamin Netanyahu and attempted to force Damascus to end its support for the PKK guerrillas and Hezbollah thereby leaving it only with one option: a peace settlement with Israel along Tel Aviv's lines, even though Damascus would have got far better terms from Simon Peres than Binyamin Netanyahu.

As Hadar notes "the "encirclement of Syria" was at the heart of the Ankara-Jerusalem strategy devised by Netanyahu...that the military pressure by the two pro-American countries on Syria would intimidate Damascus to end its support for both the PKK and Hezbollah guerrillas and leave it with no choice but reach a peace settlement with Jerusalem that would allow Israel to maintain its occupation of the Golan Heights".<sup>43</sup>

Consequently it was under Netanyahu that Tel Aviv "started to elevate the relationship with Turkey to the level of an "alliance", with some political and military leaders projecting their Turkish orientation and stressing the strategic defensive and offensive mature of their relationship..."The central axis between Israel and Turkey", Netanyahu said in a public address, "is the basis, though not the exclusive basis to form a regional framework here [Middle East]".<sup>44</sup>

Within such a strategic framework Netanyahu could not care less for Greek reactions and that allowed Turkey to push against Athens and Nicosia as hard as it could. Even though it was never officially confirmed nor refuted, Israel seems to have helped Turkey to deter Greece and Cyprus from deploying the Russian-made S-300 anti-aircraft/antimissile system in Cyprus during 1997-1998. Turkish pilots appear to have received training in the Negev desert which would have helped them to either bomb and/or evade the missile system, while Israel's lobbies in Washington promoted Turkey's cause with considerable efficiency.

At the height of the crisis in November 1998, Israeli-Cypriot relations were sullied by the arrest - two days after an official visit to Cyprus by Israel's President Ezer Weizman- of three Mossad operatives who were captured taking pictures inside a restricted military zone near the sea-town of Zygi, a potential cite for the deployment of the S-300 missile batteries. The fact that the operatives, who acknowledged their affiliation with the Israeli Secret Service, claimed during their hearing that they were in the island for an entirely different operation, only increased the apprehensive speculation of Israel's potential assistance to Turkey on the S-300 issue.

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<sup>42</sup> Op.Cit, p.26.

<sup>43</sup> Hadar, *ibid*, p.23.

<sup>44</sup> *Ibid*, p.20.

As one senior Cypriot official noted “We are not paranoid, maybe a little neurotic sometimes, but what is perceived to be real is sometimes real. We have incursions into our airspace, there are offshore Israeli-Turkish exercises, now this. We are a democracy under occupation and our public opinion is very strong”.<sup>45</sup> *Even if Israel did not actually help Turkey from a military point of view, the perception the Axis created consolidated Turkey’s determination to follow a more aggressive strategy vis-à-vis Syria, Greece and Cyprus compared to its pre-1996 options.*

As Euripides Evriviades, at the time the ambassador of Cyprus to Israel, noted in 2000 during a speech at Tel Aviv University, “Israel has assured us at the highest level that this relationship is not aimed against anyone, certainly not against Cyprus. And we have no doubts that Israel does not mean to do us any harm. But Turkey has repeatedly attacked us and bombed us...The way we perceive it, the Israeli-Turkish military relationship has emboldened the Turks and made them more arrogant because it increases their military capabilities”.<sup>46</sup>

Moreover, as Inbar underlined “Turkey’s threats to eliminate the Russian-made S-300 Surface-to-Air Missiles (SAMs) if deployed in Cyprus were credible, partly because of its Israeli connection...Syria bowed to superior Turkish power and determination in October 1998. Greece and Cyprus were similarly intimidated into not deploying the S-300 missiles two months later”.<sup>47</sup> Regardless of the fact that Netanyahu’s strategy only worked to Turkey’s interests, thereby leading to no Golan Peace settlement, despite -ironically- Israel’s withdrawal from Lebanon in 2000, it managed to bring Turkey and Syria at the brink of war in October 1998, an episode that unintentionally revealed the limits of Turkish-Israeli cooperation.

As Professor Evriviades perceptively notes “The Syrian crisis brought Israel face to face with the consequences of its alliance with Turkey, namely, that its alignment with Ankara is not consonant with the thrust of its overall regional strategy. Making Damascus nervous is one thing, but war with Syria is another. War may serve Ankara’s interests but not Jerusalem’s. That is why Israel reassured Syria with words and deeds that it will not gang up with Turkey against it”.<sup>48</sup>

Ehud Barak who succeeded Netanyahu as Prime Minister attempted to recalibrate Israel’s alliance with Turkey and put some distance between Ankara and Tel Aviv; this time Greece, having been taught a bitter lesson from Papandreou’s handling of the 1994 military agreement, was far more responsive to Israeli overtures. According to Athanassopoulou, the Syrian crisis of 1998 in combination with strong Greek and Cypriot reactions to the military components of the

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<sup>45</sup> The Mossad Operatives were sentenced to three years in prison but were released after six months and returned to Israel. Athanassopoulou, *Israeli-Turkish Security Ties*, *ibid*, p.19-21. For the statement, *ibid*, p.21. See also Mourtos, *ibid*, pp.47-48.

<sup>46</sup> Athanassopoulou, *ibid*, p.19.

<sup>47</sup> Inbar, *ibid*, p.26 & p.36.

<sup>48</sup> Evriviades, *ibid*, p.114. On the contrary one could argue –as it was underlined by the unilateral withdrawal of Israel from southern Lebanon in 2000 and the 2006 Israeli-Lebanese War that Turkey won Syrian compliance against PKK whereas Israel failed to dissuade Syria from continuing and even increasing its aid to Hizballah.

Turkish-Israeli alliance,<sup>49</sup> have led Israeli “foreign policy making bodies to reach the consensus that an effort should be made to advance some kind of dialogue with Greece. At the same time Jerusalem would have to be careful not to displease Turkey, now Israel’s most important customer of military equipment”.<sup>50</sup> The patching-up of Greek-Israeli cooperation started from exactly the same place it failed to materialize in 1994. In October 1999 Greek Defence Minister Akis Tsochatzopoulos renewed the December 1994 military cooperation agreement that contrary to what happened in the early 1990s was implemented at least partially. This time the agreement included a Military and Technical Cooperation Supplement that opened the way for the purchasing of Israeli arms by the HAF and outlined an ambitious programme of joint exercises.

Following this agreement a series of significant purchases were completed in 2000-2001 that allowed for the import and upgrading of Flight Simulators for the F-16 C/D Block-52 Plus and the F-16 Block 30 & Block-50 as well as the deployment of 25 Night Navigation and Targeting Lantirn Lightning Systems in the Greek F-16 C/D Block-50, which helped them to improve their ability to operate at night while also freeing up space in the aircrafts by unifying the navigational and targeting equipment and consequently allowing them to carry more weapons.

Furthermore PYRKAL, the state-owned Greek Powder & Cartridge Company, signed a joint production agreement with the Israeli Defence Industries regarding case shot missiles PAO of 155’’ and 156’’ in calibre. More importantly the Israeli defence company Elbit participated in the modernization of 38 Greek F-4E Phantom fighter aircrafts as a subcontractor for Germany’s DASA. It should also be noted that the Israelis were also among the short-listed companies for winning the modernization programme in 1996.<sup>51</sup>

The visit, the first ever, of Greek President Costis Stephanopoulos to Israel in May 2000 underlined the shift in Greek diplomatic behaviour towards the Israeli state, since Stephanopoulos declined to accept an invitation by the Palestinian negotiator Feisal al-Husseini who was also the resident of the Palestinian Authority in East Jerusalem. *The PLA then reacted vociferously but the important thing to underline is that the Greek side did not try to appease the Palestinians.* To the contrary, Stephanopoulos simply said that he would leave ahead of schedule, even if that meant that he would miss his meeting with President Yasser Arafat. Three days later Arafat received Stephanopoulos in Bethlehem without any further complications.<sup>52</sup>

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<sup>49</sup> Greek Foreign Minister Theodoros Pangalos condemned the Turkish-Israeli axis as “an alliance of wrongdoers that was bringing the region back to the cold war situation”, (Agnantopoulos, *ibid*, p.372) while Greek Defence Minister Akis Tsochatzopoulos warned Israel against forming an axis with Turkey noting that “Cooperation between two countries which allows one of them to develop high technology military equipment, as Turkey is trying to do with Israel’s help, can only create problems”, Athanassopoulou, *ibid*, p.16.

<sup>50</sup> Athanassopoulou, *ibid*, p.17.

<sup>51</sup> Demou, Greek-Israeli Defence Cooperation, *ibid*, pp.2-4.

<sup>52</sup> Stathis Efstathiades, “Positive Results from Stephanopoulos’ Visit”, *To Vima*, 21/05/2000, <http://www.tovima.gr/relatedarticles/article/?aid=122419>



## 2.2 Irrational Exuberance? : Post 9/11 Cooperation and the 2010 Opportunity

In the early 2000s Greek-Israeli relations remained under-developed following the pattern of mutual scepticism that had characterized most of the bilateral history between Athens and Tel Aviv. Ambitious declarations were made on the expected progress but very little happened, with the exception of a short period of substantial intelligence sharing during the build-up to the 2004 Athens Olympic Games.<sup>53</sup>

This dormant *laissez-passer* attitude started to change by 2005 when the new right-wing Karamanlis government, the first one to rule Greece after *Nea Demokratia* established full diplomatic relations with Israel in the early 1990s, decided it should try to ameliorate its dormant relationship with Israel. The most significant development in this regard was the renewal of the 1999 military cooperation agreement which led to a series of multilateral (Dolphin Search & Rescue Aero-Nautical Exercises in 2005 and 2006) and bilateral exercises (June 2008) that did not result, however, to any new purchases of weaponry.

The culminating point of this first post-9/11 Greek-Israeli rapprochement was a major Air Force exercise that took place in June 2008 and utilized the entire depth of the Greek air space over the Aegean and Ionian Seas. The 2008 *Glorious Spartan* exercises conducted by the Greek and Israeli Air Forces were also notable because they created a serious diplomatic incident following a story by the *New York Times* on 20 June 2008 that characterized the exercises as a simulation of an Israeli attack against Iran's nuclear installations.

The scenario of the exercise and the size of the Israeli participation that included more than 100 airplanes, of which 10 F-15s and 10 F-16s constituted the "force de frappe" or spearhead, fed the speculation of a large-scale rehearsal for an Israeli pre-emptive strike, which the Greek government denied without provoking any further complications in Greek-Iranian relations.<sup>54</sup> In May 2011 Greek daily *Ta Nea* utilized alleged U.S. diplomatic cables that were presented in the *Wikileaks website* in a story that substantiated the 2008 revelation in ways that added a new and more worrisome angle. According to the Wikileaks cables Greece was forced to coordinate its actions with the Israeli Air Force in 2008 because the IAF had conducted a similar exercise in 2007 without the Karamanlis government knowing anything about it.

According to the *Wikileaked* document the Deputy Chief of Mission (DCM) of the Israeli embassy in Athens told his U.S. counterpart Thomas Countryman that "a similar exercise [to *Glorious Spartan*], though on a somewhat smaller scale, had taken place last year, but that time the Israelis had not informed the Greeks, who were caught "completely off-guard."

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<sup>53</sup> Hayim Iserovich, "Israel and Greece: A Friendship with Benefits", *Research Institute for European and American Studies*, 28/02/2011, <http://www.rieas.gr/research-areas/greek-israel-studies/1431-israel-and-greece-a-friendship-with-benefits.html>

<sup>54</sup> The exercises included the simulated attack against anti-aircraft batteries and large-scale coordinated refuelling operations over an area that covered 2/3 of Greek territory from a major airbase in Kastelli near Chania to the city of Larisa, which is less than 100km from Thessaloniki. Angelos Athanassopoulos & Nikos Hassapopoulos, "The "Glorious Spartan" Corners Athens", *To Vima*, 06/07/2008, <http://www.tovima.gr/relatedarticles/article/?aid=189739>.



Last year's exercise had also been preceded by an Israeli test firing two weeks prior to the exercises of a sophisticated missile near Cyprus. These two events had spooked the Greeks, led to several delegations exchanging visits, and, ultimately, an apology by Israel. The outcome of the incidents and discussions, however, was better Israeli-Greek relations and a promise to coordinate and cooperate on such exercises in the future".<sup>55</sup>

Despite the belated embarrassment of the 2008 *Glorious Spartan* exercises, bilateral economic relations improved, led by a steadily increasing stream of Israeli tourists following the 2004 Olympics that helped to boost the volume of bilateral trade from \$110 million in 1990 to \$275 million in 2002 and to \$522 million in 2008.<sup>56</sup> Accordingly, Israeli tourists to Turkey fell from an all time high of 560,000 in 2008 to less than 110,000 by 2010, whereas Israeli arrivals to Greece increased by 200% from 2009 to 2010 reaching an all time high of 250,000 by late 2010.<sup>57</sup>

In May 2010 even *before* the *Mavi Marmara* incident, the Hellenic (HAF) and Israeli Air Forces (IAF) had continued the deepening of their cooperation by executing *Minoas 2010*, another combined search and destroy exercise that involved over 25 F-15s and F-16s from both countries while including the airborne refuelling of the small fleet by an Israeli Flying Tanker KC-807. The drill was executed over an area that covered most of the Greek airspace from the 110 Fighting Squadron that is based in Souda Bay, Crete to specifically committed flying zones to the northeastern part of the Aegean Sea.<sup>58</sup>

By October 2010, following the Prime Ministers' exchange visits in July (Tel Aviv) and August (Athens), the cooperation between the HAF & the IAF expanded so as to include equally delicate exercises between the Army Attack Helicopters fleet (Apaches & Black Hawks) of the two countries. Following *Minoas 2010* the first ever Greek-Israeli Civil Aviation Cooperation agreement was signed on 30 October 2010 by then Greek Foreign Minister Demetrios Droutsas that resulted to the establishment of direct weekly flights between Tel Aviv and Athens that are serviced by respectively El Al and Aegean Airlines.<sup>59</sup>

As Cyprus and Israel drew closer together after the signing of their EEZ delimitation agreement in December 2010, Athens and Tel Aviv increased and deepened the pace of their rapprochement. New military exercises took place throughout 2011, most notably in the middle of November when Turkey's military presence in the waters of Cyprus' EEZ was intensified, following the signing on 5 September 2011 of a new bilateral military agreement that was

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<sup>55</sup> Aristotelia Peloni, "The Secret Story of "Glorious Spartan"", *Ta Nea*, 28/5/2011, <http://www.tanea.gr/ellada/article/?aid=4632981>

<sup>56</sup> For 1990 and 2002 data, see Agnantopoulos, *ibid*, p.361. For the 2008 data see Greek-Israeli Chamber of Commerce, [http://www.greekisrael-chamber.gr/index.php?cPath=27\\_28](http://www.greekisrael-chamber.gr/index.php?cPath=27_28) (accessed 22 September 2011).

<sup>57</sup> "Number of Israeli Tourists Visiting Turkey Declines", *Hurriyet*, 18/10/2011 & Barak Ravid, "As Turkey Front Freezes, Israel Looks to Warming Balkan Ties", *Haaretz*, 26/11/2010.

<sup>58</sup> [http://www.express.gr/news/ellada/3072950z\\_20100525307295.php3\\_25/5/2010](http://www.express.gr/news/ellada/3072950z_20100525307295.php3_25/5/2010)

<sup>59</sup> "Turkey's Nemesis, Greece New Friend to Israel", *Washington Times*, 21/10/2011 & Jonathan Marcus, "Israel Woes Greece After Rift with Turkey", *BBC News*, 16/10/2011, [http://www.bbc.co.uk/news/world-middle-east-11556442#story\\_continues\\_1#story](http://www.bbc.co.uk/news/world-middle-east-11556442#story_continues_1#story)

preceded by the first \$155 million defence procurement deal struck between the two countries after the *Mavi Marmara* incident.<sup>60</sup> As the then Greek Defence Minister Panos Beglitis noted, after the signing of the defence pact on 5 September 2011 “I come as my country's defense minister to state our political will as a government, as well as the majority of the country's political forces, for the two countries, the two governments, the two peoples, to work together so that we can further develop and deepen our bilateral relations in all sectors of mutual interest and concern”. Beglitis was on a three day visit to Israel during which he also met with Foreign Minister Lieberman, Prime Minister Netanyahu, and President Shimon Peres.<sup>61</sup>

*The defense agreement was a crucial step in deepening the rapprochement given the fact that the Israeli defense establishment, including Ehud Barak, had serious doubts about the formalization of the ongoing cooperation between the two militaries.* Barak and elements of the Israeli defence establishment are probably the most skeptical components of the Israeli power structure with regards to the continuation of the Turkish-Israeli détente. It is indeed noteworthy that Mr. Barak was reported to be “the leading voice inside Netanyahu’s inner circle calling for a rapprochement with Turkey”.<sup>62</sup>

Of equal importance on a symbolic and diplomatic level was the decision of then Prime Minister George Papandreou to go contrary to his father’s political legacy -not to mention PASOK’s ideological roots-, and block in early July 2011 the departure of the “Free Gaza” Flotilla who - after Ankara’s blockade- has assembled in Greek ports. Greek authorities forced the return of the vessels back to Piraeus and Chania while also blocking the departure of several other boats

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<sup>60</sup> Greek F-16s repeated the Minoas 2010 training exercises –including the participation of an Air Refuelling Tanker- in southern Israel operating out of the Ovda airbase from 14-18 November 2011. “Joint Air Force Exercises with Israel”, *Athens News*, 18/11/2011, <http://www.athensnews.gr/portal/1/50594>. It should also be noted that Israeli Army Assault Helicopters and Aircrafts conducted refuelling and attack simulation exercises in the Cypriot FIR in late October utilizing the Paphos air base which is operating by the HAF according to details published by the Cypriot Civil Aviation Authority on 18 October. “Israeli Exercises in Cyprus”, 21/10/2011, <http://www.defencegreece.com/index.php/2011/10/closer-military-cooperation-between-israel-and-cyprus/>. One week prior to the Beglitis’ visit the Greek Parliament’s Defence Committee approved the purchase of Rafael-made Spice 1000 and 2000 bomb precision upgrade kits at a cost of \$155 million for 400 systems. “Greece and Israel Sign Pact on Security Cooperation”, *Jerusalem Post*, 05/09/2011.

<sup>61</sup> “Greece and Israel Sign Pact on Security Cooperation”, *Jerusalem Post*, 05/09/2011.

<sup>62</sup> “Security Cabinet Meets “To Contain Crisis” with Turkey”, *Jerusalem Post*, 05/09/2011. As *Zaman* reported on 6 September 2011 ““Ehud Barak said: “Israel and Turkey are the two strongest nations in the Middle East and in many respects, the most important. We have disputes, and even in the case of disputes, it’s very important that the two sides use their brains and not act from the gut. It would be best for all involved and in the interest of regional stability to patch things up.” Meanwhile, a senior official from the Israel Defense Ministry, Amos Gilad, ruled out the possibility of a complete breakdown in Turkish-Israeli relations, denying speculation in the media that the Israeli military attaché in Turkey would be expelled as well”, “Reaction Mounts in Israel Against Its Refusal to Apologize to Turkey”, *Zaman*, 06/09/2011.

on the grounds of their “seaworthiness”.<sup>63</sup> The prevention of the Gaza Flotilla, which could have easily repeated the *Mavi Marmara* incident on a larger scale, is politically important because it opened the way for to the visit of Greek President Karolos Papoulias to Israel on 10-11 July 2011, a visit that constituted the symbolic apex of the Greek-Israeli rapprochement, especially since Papoulias was instrumental in implementing Andreas Papandreou’s pro-Arafat policies in the early 1980s. It should also be noted though that Papoulias was also warmly welcomed by PLA President Mahmoud Abbas.<sup>64</sup>

The dramatic improvement of Greek-Israeli relations that culminated in the signing of the September 2011 defence agreement coincided with some unprecedented initiatives taken by the IAF at the same approximate time period in response to Turkey’s reactions against the drilling of Noble Energy in Block 12 of Cyprus’ Exclusive Economic Zone. When in the end of September 2011 Turkey’s *Piri Reis* oceanographic vessel and the accompanying naval ships approached the Noble Homer Ferrington drilling platform that operated on Aphrodite in a distance of 20 miles, namely 25 miles from Israel’s EEZ borderline, the Cypriot daily *Fileleftheros* reported that an Israeli army attack helicopter remained over the platform for an extended period of time.

The following day, several Israeli F-15s flew over the entire Cypriot FIR and across Turkey’s southern FIR flank, while the Israeli navy increased its patrols and presence in the proximity of the drilling area.<sup>65</sup> The fact that Israel apparently protected the international legality of Noble’s exploratory activities *before* Delek was even allowed by the Cypriot government to buy into Noble’s permit, is indicative of the importance Tel Aviv attributes to Cypriot energy resources, but that should not be mistaken by any Cypriot or Greek official as a sign that Israel is willing to share Greece’s responsibilities over the security of Cyprus.

Israel’s evolving military interest or *droit de regard* over Cyprus may extend *ad maxima* over the future export infrastructure that Noble and Delek *may* construct as well as the defence of Israel’s own maritime borders with Cyprus which were defined on 17 December 2010 through the demarcation of each country’s Exclusive Economic Zone (EEZ). If Turkey was allowed or is allowed to question the legitimacy of Noble’s drilling on Aphrodite, a field adjacent to the Cypriot-Israeli EEZ borderline, it would be effectively dictating to Tel Aviv the extend of its own EEZ. For Tel Aviv the diplomatic-military “defence” of Noble’s drilling in the autumn of 2011 was a very clear and very conventional attestation of Israel’s EEZ borders.

Tel Aviv’s interest in Aphrodite far exceeded the need to protect the commercial interests of any Israeli or American company. In effect Israel protected the sovereignty of Cyprus’ EEZ because it affected its own sovereignty vis-à-vis Lebanon in its dispute with Israel and Turkey’s attempt to present itself as the protector of Lebanese claims in the eyes of Arab public opinion.

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<sup>63</sup> Maria Petrakis, “Greece Deepens Israeli Ties Seeking Economic Gains Amid Crisis”, *Bloomberg*, 24/08/2011, “Israel’s New Friend: Why Greece Is Thwarting Gaza Flotilla”, *Christian Science Monitor*, 05/07/2011.

<sup>64</sup> “President Papoulias Visits Israel and Palestinian Authority”, *Athens News*, 09/07/2011, & “Peres Thanks Greek President for Help on Flotilla”, *Jerusalem Post*, 11/07/2011.

<sup>65</sup> “Israel Deployed Fighters Plains in Response to Turkey’s Provocations”, *Fileleftheros*, 29/09/2011 (in Greek) “Israel Scrambles IAF Plains Towards Turkish Ship”, *Haaretz*, 30/09/2011 & “Israeli Jets Fly Low Over Turkish Exploration Ships”, *Jerusalem Post*, 30/09/2011.

It is debatable whether Israel will continue to extend its informal protection over parts of the Cypriot Exclusive Economic Zone, if it decides to direct the bulk of Leviathan's exports to Asian markets and does not approve the Noble/Delek plan to construct the aforementioned LNG terminal in Vassilikos. In all probability, Israel will continue to extend a "droit de regard" at least over the Blocks of the Cypriot EEZ that are neighbouring its own EEZ in order to make sure that Turkish claims do not set the limits of its own EEZ.

### 2.3 Stay the Course: The Development of Greek-Israeli Relations after the fall of the George Papandreou Government (2011-2013)

The Defence accord signed between Israel and Greece in September 2011 constituted the climax of Papandreou's initial openings to Tel Aviv following the *Mavi Marmara* incident. Less than two months after Defence Minister Beglitis returned to Athens and the political situation in the country had changed dramatically. Papandreou was forced to resign following a massive rebellion from his own parliamentary group after he announced his intention to put the country's Eurozone membership to a referendum.

A new coalition government headed by Loukas Papademos, the former Vice Chairman of the European Central Bank, and supported by the votes of both former arch-rivals PASOK and Nea Demokratia was sworn in with the specific purpose to negotiate the biggest debt haircut in recent economic history and lead the country towards an early general election before mid-2012 at the behest of Antonis Samaras, *then* the President of Nea Demokratia.

The results of those general elections transformed the Greek political system in three fundamental ways: (a) it made single-party rule an impossibility, forcing Nea Demokratia to form a long-term governing coalition with PASOK and -until June 2013- the European Left party of DIMAR, (b) it created a new dichotomy between a pro-European center-right pole centered around Nea Demokratia and an increasingly radicalizing leftist pole centered around SYRIZA that does not yet have a clear pro-European and pro-Eurozone direction and (c) it pushed a neo-Nazi ultra-rightist and clearly xenophobic party, Golden Dawn (Chryssi Avgi), to the forefront of parliamentary politics as the country's 5<sup>th</sup> largest party.

The results of the two consecutive general elections in May and June 2012 increased the country's political volatility that reached its zenith in the interim period between the two elections. At the time few political and economic commentators projected that the government would survive for more than a few months or -at the best case- for a year. Most financial analysts did not believe that Greece would remain in the Eurozone or that the systemic danger of Grexit had diminished. Almost no one believed that the country would be able to produce a primary surplus in its budget within 2013.

By October 2013 when Prime Minister Antonis Samaras visited Jerusalem accompanied by half of his cabinet ministers and Deputy Prime Minister Evangelos Venizelos, the government had gone a long way to disprove the pessimistic -yet at the time (June 2012) very realistic- estimates made in June 2012, regarding its longevity and its ability to remove Greece from the brink of a suicidal Eurozone-exit. If one considers the importance of the tasks ahead for Mr.Samaras and his cabinet in June 2012, the continued rapprochement with Israel would not logically feature in the government's top foreign policy priorities. Yet, since taking office, the continued improvement and deepening of Greek-Israeli relations has been among the top objectives of Samaras'

diplomacy. Actually the continued and expanded rapprochement was at the center of Samaras' diplomacy vis-à-vis Israel even before he was elected Prime Minister.

When Samaras visited Israel, in December 2011, as the head of the second party who supported the Papademos government, he clearly articulated a vision of “long-term and strategic cooperation” between the two countries. Samaras who was Foreign Minister when Greece finally recognized the state of Israel in 1990, understands the importance of Israel's influence in Washington D.C. and believes in the instrumental role Israeli lobbies could play in supporting Greece's diplomatic standing in the U.S.A. and Germany while also improving its ability to attract investment from Israel and Israeli-American businessmen.

Samaras was received and treated like a Prime Minister “in waiting” and was given access to Israel's President, Prime Minister, Foreign Minister and Knesset President in parts because he not only reaffirmed Papandreou's course of action but also appeared willing to go beyond it. As Samaras said “The road is open. With the proper work we can have good results. Creating stronger ties with Israel is something Nea Demokratia wholeheartedly supports. We have a lot in common with Israel and future historians will wonder why it took us so long to understand it”<sup>66</sup>

By the time Simon Peres made the first ever visit of an Israeli President to Athens in August 2012, Samaras was in a position to fully implement the vision of a fully-fledged strategic partnership from increased commercial relations -Israeli tourists visiting Greece in the summer of 2012 were over 400,000- to joined naval exercises in the Aegean Sea which were completed a few days before Peres arrived in Athens.<sup>67</sup> The Israeli President, who was accompanied only from the Minister of Agriculture & Rural Development, Ms. Orit Noked, expressed his support for the ongoing rapprochement between two “small states who can achieve great things” as he said, during the official press conference that followed his meeting with Greek President Karolos Papoulias.

Papoulias emphasized in his opening remarks that “the convergence of interests in Eastern Mediterranean allow for the establishment of a strategic relation [between Greece and Israel] - with the Republic of Cyprus being an integral part- considering that the discovery of significant underwater natural gas deposits and the transport of Israeli and Cypriot natural gas to Europe via Greece change the geo-economics and geopolitical framework in the greater region”. President Peres in an interview he gave to *Mega Channel* TV on 3 August 2012 also confirmed the promise of a strategic energy cooperation between the two East Mediterranean states built around a future network of gas pipelines connecting Israel, Cyprus and Greece. “I am sure” he said that “in the future we could see such a network” adding that such a development “is required by geography and commanded by economics”.<sup>68</sup> He also stressed though that natural gas should not be the only sector of potential cooperation underlining that “we will also see in the near future changes in the oil sector towards two directions: better use of existing oil resources but also the [discovery] of new sources of oil and gas. We are entering a new era for

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<sup>66</sup> “Samaras Wants a Geopolitical Alliance with Israel”, *Kathimerini*, 14/12/2011 (in Greek).

<sup>67</sup> “Closer Cooperation between Athens-Tel Aviv on the menu of the Peres Visit”, *Kathimerini*, 06/08/2012 (in Greek) & “A Stronger Axis with Israel”, *Ethnos*, 05/08/2012 (in Greek).

<sup>68</sup> “Israeli President arrives on state visit, warm greeting by Papoulias”, *Athens/Macedonian News Agency*, 06/08/2012, <http://www.hri.org/news/greek/apeen/2012/12-08-06.apeen.html>



the discovery and distribution of petroleum and [natural] gas”.<sup>69</sup> Energy has been perceived as the cornerstone of this strategic rapprochement, especially since the idea of a pipeline connection via Cyprus was suggested by Prime Minister Netanyahu in July 2010.

Since then Israel and Greece supported both diplomatically and militarily the exploratory drilling operations of Noble Energy on the Aphrodite field during autumn 2011 and are examining ways of institutionalizing their energy cooperation beyond the natural gas sector in the field of Renewable Energy and Efficiency, even though at the time they had not signed an MoU that consolidates this aspired partnership framework. This MoU was supposed to be signed in March 2012 but was cancelled at the last minute due to a government reshuffling in Cyprus.

It should be noted though that, despite the cancellation of the MoU’s signing ceremony in Athens, all three Energy Ministers who were present spoke in a very positive way for their prospective trilateral cooperation. More significantly Israeli Minister Uzi Landau noted in his address to *The Economist* Energy Summit in late March 2012 that “the discovery of offshore natural gas has major implications for its long term security, given ongoing bloody revolts in the Middle East”.<sup>70</sup> More interestingly, Landau revealed the importance he attributed to the “axis” - as he called it- between Greece, Cyprus and Israel, in Tel Aviv’s geostrategic thinking by noting that: “In the Middle East, that is now caught in a tremendous earthquake, stretching from the Atlantic to the Persian Gulf and beyond, the axis of Greece, Cyprus and Israel will provide an anchor of stability - and stability is highly important”.<sup>71</sup>

President Peres came to Athens to reconfirm the geostrategic vision articulated by Landau five months earlier but did not manage to present any tangible progress on the way such an energy cooperation would come about. What Peres’ visit did though was to push the Israeli side to agree to the establishment of two joint working groups between Greece-Cyprus-Israel that would identify energy projects of common interest and attempt to bridge the gap between expectations and realities regarding the formation of a real tripartite Axis founded on energy.

The Energy Ministers of Israel, Cyprus and Greece met in Nicosia on 8 November 2012 in order to discuss two projects of mutual benefit that would prospectively link Israeli and Cypriot gas and gas-fired electricity with the markets of Southern Europe. The three states decided to set up two joint working groups that will evaluate the feasibility and subsequently undertake the promotion of two major energy initiatives: the EuroAsia High Voltage Direct Current (HVDC) electricity cable and the establishment of a South East Med Energy Corridor which will examine all alternative export options (pipeline, LNG, FLNG) for the transportation of Cypriot/Israeli gas to the EU via Greece.<sup>72</sup> Since we will examine the pipeline option in appropriate detail in the third chapter of this paper, we will now focus on the HVDC line.

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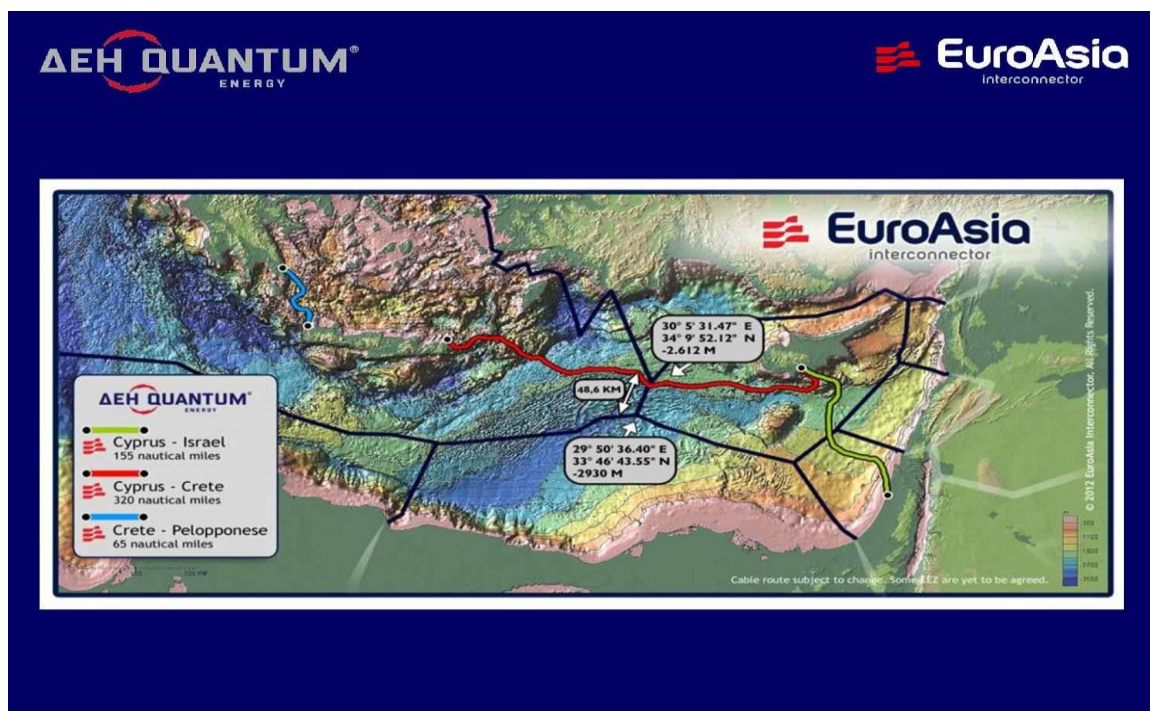
<sup>69</sup> [Ibid. See also “Peres receives Greek Gold on Athens Visit”, \*Jerusalem Post\*, 07/08/2012.](#)

<sup>70</sup> <http://www.mees.com/en/articles/4446-grece-cyprus-israel-energy-mou-postponed-indefinitely>

<sup>71</sup> Ibid.

<sup>72</sup> Simone Tagliapietra, *Towards a New Eastern Mediterranean Energy Corridor?*, *Nota di Lavoro* 12.2013, Fondazione Eni Enrico Mattei, (Milan: 2013), p.18.





Source: Quantum Energy

The HVDC cable project, which is considered far more mature and technically feasible than any underwater pipeline connection among the three countries, is being examined by a trilateral consortium consisted of Greece’s PPC/DEH (Public Power Co.), Israel’s Electricity Co. (IEC) and DEHQuantum Energy which is also the project’s operator. Cyprus-based Quantum Energy is a Joint Venture Co. made up from PPC, Quantum Energy and Cyprus Bank that was established in 2011 in Nicosia. Quantum Energy and IEC signed a MoU on 4 March 2012 that called for the preparation of a detailed feasibility study on the construction of an 865km *bi-directional* electricity link, which would be laid across the seabed of the Eastern Mediterranean at a maximum depth of 2.600 meters.

The HVDC link would have a maximum transportation capacity of 2 Giga-Watts (GW). It would cost approximately \$2 billion and could take up to 3 years to construct. The Greek-Cypriot-Israeli consortium presented the pre-feasibility study of the project to the three ministers on 8 November 2012. The detailed pre-feasibility study helped the diplomatic efforts of Athens and Nicosia to secure the financial support of the European Commission for the HVDC line within the framework of the negotiations for the EU’s Projects of Common Interest (PCI).

The PCI negotiations which formally ended on 14 October 2013 identify 248 EU-wide gas & electricity interconnection & storage projects whose study (in the pre-feasibility and feasibility level) the European Commission will finance from a special Infrastructure Fund worth €5,85 billion. If a project is recognized as a PCI it means that it “will benefit from faster and more efficient permit granting procedures and improved regulatory treatment”.<sup>73</sup> For a project to be included in the list “it has to have significant benefits for at least two Member States; contribute

<sup>73</sup> [http://ec.europa.eu/energy/infrastructure/pci/pci\\_en.htm](http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm) (accessed on 08/12/2013)

to market integration and further competition; enhance security of supply, and reduce CO<sub>2</sub> emissions”.<sup>74</sup> The inclusion of the EuroAsia HVDC project<sup>75</sup> in the EU’s PCI list constitutes the first tangible step in the direction of establishing an Energy-based Axis between the three Mediterranean democracies. It is the first time Israel is connected to a European-wide infrastructure project that illustrates its potential contribution to the EU’s energy security. The PCI labeling means that the project will receive EC funds for a serious feasibility study while being granted priority status consideration for a loan from the European Investment Bank if the project proves its feasibility.

The PCI label does not mean though that the project will be constructed or that the EIB is committed to finance it, unless it is able to prove its bankability to the International Financial Institutions, the Private Banks and the major European Utility companies, such as RWE, EDF and ENEL that would -at the end of the day- buy the gas-fired electricity from any future Cypriot or Israeli generation plant. *The PCI label is only the beginning of a marathon process that does not guarantee the project’s bankability or feasibility, as it is illustrated by the defeat of ITGI and Nabucco by a non PCI project, the Trans Adriatic Pipeline in the run for transporting to Europe Azeri gas.*

The difference between with TAP and the Southern Gas Corridor Strategy is that at least one of the two reserves owners, Cyprus, is an EU member-state and that Israel needs this electricity interconnection even more than Cyprus. IEC and the Israeli government are firmly behind the project working in synch with Athens and Nicosia to promote the project through Israel’s allies in the EU. *There is no internal ambiguity in Israel with regards to the necessity of such an electricity interconnection.* To the contrary, if the cable is constructed it could help export major electricity volumes to Israel in case of a major *internal* supply disruption. Such an interconnection would effectively break Israel’s energy isolation from the Middle East; an isolation that has again become absolute since April 2012 when Egypt shut down the El Arish - Ashkelon gas pipeline. The HVDC interconnector will also offer Israel an additional “fail safety switch” in case the flow of gas from Tamar and -in the future- Leviathan is disrupted.

Moreover the electricity cable would also connect Crete with mainland Greece terminating the isolation of both Crete and Cyprus from the mainland European electricity grid. Crete itself could cover around half of its electricity needs from the HVDC that amounted to almost 800 MW in 2010 and there would be no need to build additional connections in order to export significant volumes of up to 500 MW of electricity to Italy since an interconnector has been in operation between the two EU countries since 2002. Ultimately it will be the market that will decide whether the HVDC cable will be constructed or not.<sup>76</sup>

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<sup>74</sup> Ibid.

<sup>75</sup> [http://ec.europa.eu/energy/infrastructure/pci/doc/2013\\_pci\\_projects\\_country.pdf](http://ec.europa.eu/energy/infrastructure/pci/doc/2013_pci_projects_country.pdf) (accessed on 08/12/2013)

<sup>76</sup> Institute of Energy for South East Europe-IENE, A Strategic Study of Electricity Interconnections in S.E. Europe and Greece’s Crucial Role, (in Greek), (Athens: 2012), p.18-20.

The inclusion in October 2013 of the Euro-Asia HVDC in the PCI list of the European Union was not the only improvement in the emerging trilateral energy relationship between Israel and the two Greek states of the EU in the second half of 2013. As we already mentioned, the three states signed -with a delay of 15 months- a trilateral MoU on Energy cooperation on 8 August 2013.<sup>77</sup>

Although the MoU is too vague to commit any side to a particular course of action in terms of selecting the optimal gas export route, its political significance spoke volumes of Israel's geopolitical preferences at a time when -before the reappointment of Foreign Minister Lieberman- the Turkish-Israeli pipeline option remained on the table as a serious alternative to building an LNG in Israel and/or Cyprus, as well as a pipeline to Greece.

As Israel's Energy Minister, Silvan Shalom, noted "The tripartite agreement was reached after many discussions, and demonstrates the strong and tightening relations between the countries" adding that "The electric conduit can easily become a cable which will supply and export electricity to the European energy market, and provide us with energy security". In addition to that, the joint communiqué that followed the trilateral meeting noted that the three countries "will cooperate to protect regionally important infrastructures in the Mediterranean where natural gas fields are located".<sup>78</sup>

More importantly the three states agreed to "jointly examine ways and means for the optimal development of natural resources in the Eastern Basin of the Mediterranean", taking into consideration "the discovery of new energy resources...and the opportunities for the diversification of sources and routes such discoveries bring with them".<sup>79</sup> Although the three states have diverging opinions on which export route would constitute the most beneficial option for its particular interests, they all seem to agree that a European market destination which would *at least* partly cross via Greece is among their top priorities, despite the fact that for Cyprus and Israel the preferred short-term evacuation option is more likely to be via an LNG terminal rather than a pipeline.

From a geopolitical point of view though, the "non-consummation" of this energy "flirtation" into a solid, marketable and strategically "underwritten" project, will have a detrimental impact on the additional progress of Greek-Israeli and Cypriot-Israeli relations, although the negative effect between Nicosia and Tel Aviv will be far less damaging given the sharing of Aphrodite between the two states and its development by Noble Energy and the Delek Group. Such a joint energy project will constitute the common cardinal interest that will transform the present Greek-Israeli alignment into a comprehensive alliance; an alliance that should eventually include Egypt's secular forces.

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<sup>77</sup> For the text of the MoU visit the website of the Hellenic Ministry of Environment, Energy & Climate Change, <http://www.ypeka.gr/LinkClick.aspx?fileticket=fFgdhnb%2biAQ%3d&tabid=367&language=el-GR>.

<sup>78</sup> "Israel, Greece, Cyprus Sign New Energy MoU", *Globes*, 08/08/2013.

<sup>79</sup> <http://www.ypeka.gr/LinkClick.aspx?fileticket=fFgdhnb%2biAQ%3d&tabid=367&language=el-GR>.

## 2.4 Conclusion: The Missing Linchpin

Initially, the burgeoning of Greek-Israeli cooperation that followed the Mavi Marmara incident, combined with the delimitation of the Cypriot-Israeli Exclusive Economic Zone (EEZ), created the impression that a small diplomatic revolution was at hand. The most “optimistic” proponents of this rapprochement went so far as to suggest that the traditionally good relations of Greece and Cyprus with Arab states were becoming increasingly obsolete. A strong strategic alliance between Greece, Cyprus, and Israel would be formulated in order to help Cyprus develop its hydrocarbon resources in the face of Turkish opposition while offering Israeli/Cypriot gas exports a secure transit to central and southeast Europe via Greece, or at least that was the core perception of Greece’s vital interest in engaging Israel.

This school of thought viewed Israel as a strategic counterbalance to Turkey. Its policy recommendations were primarily a knee-jerk reaction to what was erroneously perceived as an opportunity to commit Israel in a confrontational policy vis-à-vis Turkey on issues of a core interest to Greece.<sup>80</sup> Despite the initially high expectations of such an outcome these expectations have not been heretofore realized. *Although Greek-Israeli relations markedly improved over the last three years, the so-called “Strategic Alliance” remains a chimera, partly because the most tangible and significant pillar on which such an Alliance could be based - energy cooperation- is still incomplete.* As it has been already analyzed since 2010 diplomatic exchanges increased, joint military exercises multiplied, and the flow of Israeli tourists to Greece and Cyprus grew substantially, but the core strategic component of this alliance has so far remained theoretical. The only notable exception has been Delek’s participation with a 30% share in the Noble-led consortium which is currently exploring for hydrocarbons in Block 12 of the Cypriot EEZ and discovered the Aphrodite field.

What would best describe the current status of Greek-Israeli relations is an alignment of interests in several important areas that still lacks the core *raison d’être* for becoming an alliance. Energy cooperation that would alleviate EU gas dependence on Russian imports and (prospectively) Turkish transit could constitute such a core interest not only for Israel, Cyprus and Greece but for several leading EU member-states with important interests in the Eastern Mediterranean, such as Italy and more importantly France. *Energy cooperation illustrated by the liquefaction of Israeli gas in Cyprus and the more long-term construction of gas and electricity lines to Greece can constitute this missing linchpin and turn the alignment into an alliance.*

This is not where we are right now though and if Israel decides to not use Cyprus as a conduit for *part* of its gas exports to Europe the alliance may not emerge at all, *unless Turkey decides to use its military power offensively in ways that would necessitate a closer military cooperation between the three non-Islamic democracies of the Eastern Mediterranean.* In the absence of such aggressive adventurism from Turkey, the most accurate definition of this developing relationship is one that is flexible enough to allow both states a certain margin of manoeuvring in dealing with the principal factor that brought them together i.e. the rupturing of the Turkish-Israeli alliance and what they perceive as Turkey’s regional hegemonic aspirations.

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<sup>80</sup> For a related analysis, see Thanos Dokos, “The Prospects for Greek-Israeli Relations: A View from Athens”, *ELIAMEP Policy Brief 11/2013*, (April 2013).

This margin of flexibility has “allowed” Greece to continue the same balancing act that promoted an expansion of bilateral cooperation with Israel while making sure that this cooperation would not translate into diplomatic damages for Greece’s Arab relations. This policy was clearly illustrated by Greece’s decision to vote in favour of the Palestinian Authority’s (PLA) admittance in UNESCO as a full member state in October 2011 despite Israeli reactions and pressures to remain neutral.

What is important to note though is that the flourishing of Greek-Israeli relations in the commercial and tourist sectors continued throughout 2012 and 2013, despite Greece’s pro-Palestinian positions in the UN framework, including its decision (November 2012) to support, as did France, Italy and Cyprus, the PLA’s admission to the UN as a non-member observer state.<sup>81</sup> It is indicative of Greece’s successful diplomatic flexibility that a few weeks before the UN vote, Greek and Israeli Air Forces conducted a series of sensitive common exercises in the maritime zone that would connect the future Greek and Cypriot EEZs extending from the areas to the Southeast of Crete all the way to Cyprus’ western shores.<sup>82</sup>

How long could Greece keep this balancing act? No one can provide a definite answer at the present juncture, although the pressure to give this answer may become increasingly obsolete given the drastic ongoing changes in the Near East, such as the continuing disintegration of Syria and Libya and the growing polarized divide between Islamist and more secular forces in Egypt and the PLA. The answer Greece will be forced to give will primarily depend:

- (a) on the possibility of a new Turkish-Israeli rapprochement that -even if it succeeds- will not result in a new regional alignment as long as Erdogan continues to perceive and portray himself as the guardian of the Muslim Brotherhood throughout the modern Middle East;
- (b) the feasibility of a viable and equitable resolution of the ‘Cypriot Question’ that would drastically ameliorate Greek-Turkish relations, a prospect that needs to take into account the status of Cyprus as an EU and Eurozone member state;
- (c) Erdogan’s own policy in the Middle East and his continued support for an ideologically-driven pro-Islamist agenda that puts him in direct confrontation with Israel’s strategists and Egypt’s generals.

At the end of the day what is important for Israeli strategic interests is not whether Greece voted in favour of PLA’s status in the UN but whether Turkey would continue its support for Hamas, Islamic Jihad and the multitude of Sunni Jihadists currently occupying more than 1/3 of what used to be Syria’s territory.

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<sup>81</sup> The upgrading of Palestinian status to a non-member state of the UN was supported by 138 states and opposed by 9 countries led by the U.S. 41 states abstained including the UK and Germany.  
<http://www.un.org/News/Press/docs//2012/ga11317.doc.htm>

<sup>82</sup> “Israel, Greece Conduct Joint Military Exercise”,  
<http://www.israelnationalnews.com/News/News.aspx/161491>



### 3. Assessing the Export Alternatives: Pipelines Vs LNG

Despite the fact that the shifting geopolitics of the contemporary Near East are far more important than the region's energy potential for global and European politics, the way regional players decide to monetize their natural gas export capacity will undoubtedly affect the development of the quadrangular relationship between Greece, Cyprus, Israel and Turkey. At the same time though, the present nature and future strategic direction of the political relationship between these four states, the quality of their interdependence with the rest of the region and the political risk these interdependencies create will also affect the “bankability” of the principal export options available to Israel and Cyprus.

It is notable to add that in the Eastern Mediterranean the political risk factor will play a role of paramount importance in the decision making processes of both governments and companies in ways that *may* eliminate even some of the most commercially competitive projects, such as the utilization of Egypt's idle liquefaction capacity and an Israeli pipeline to Jordan. This chapter will critically review the main political and commercial advantages and disadvantages of the three main export alternatives considered for the monetization of Israeli and Cypriot gas reserves that affect Greece which will also have a major impact on the geopolitical dynamics of the abovementioned “quadrangle”.

These alternatives are (a) The Turkish-Israeli gas pipeline (8-10 bcm/y) or pipelines (16 bcm/y) connecting Leviathan to Ceyhan, (b) The construction of a one (7 bcm/y) or two (14 bcm/y) LNG liquefaction trains in the Vassilikos area for the export of Cypriot and Israeli gas (from Leviathan) and (c) The construction of an underwater pipeline linking Leviathan and Aphrodite with mainland Greece. Other exports options such as marine CNG, FLNG, Egyptian LNG, Jordanian exports, Jordanian LNG, and onshore Israeli LNG in either Eilat or the Mediterranean coast will only be discussed in passing.

#### 3.1. The Leviathan-Ceyhan Pipeline

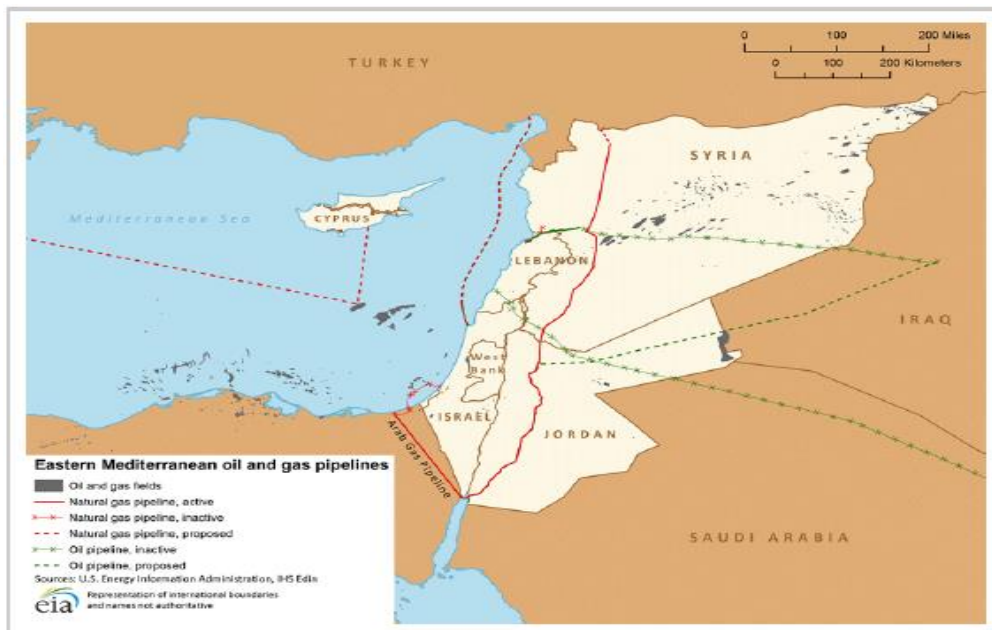
##### 3.1.1. Geopolitical Considerations

An Israeli export pipeline to Turkey, regardless of its size and route, will need to overcome a series of major geopolitical impediments that relate not only to the region's increasing volatility but also to the political preconditions necessary to construct a multibillion \$ investment which will need to operate for decades. What are the different route options available for a LCP?

**Onshore via Syria/Lebanon:** The first theoretical route of such a pipeline would essentially bypass both Cyprus and Lebanon by crossing to Turkey via Syria, probably along the route of the Trans-Arab Gas pipeline. Turkey and Syria were months away from completing the construction of a smaller capacity (3-5 bcm/y) gas interconnector before the civil war of 2011 erupted.

Apart from the evident problems of stabilizing and reconstructing Syria, any post-Assad regime is likely to have higher priorities than to facilitate the transit of Israeli gas especially as long as the Golan issue remains unresolved. *It will be close to impossible to convince Noble, Delek and more importantly Woodside to invest billions of USD in the construction of a 10-15 bcm/y pipeline through so volatile a place as post-Assad Syria.* In case Assad reasserts control, it should not be an exaggeration to suggest that for several years Syria would be closer to Tel-Aviv than Ankara.





**Offshore Bypassing Lebanon via the Cypriot EEZ:** the second theoretical route of such a pipeline would essentially bypass Lebanon by crossing through Cyprus’ EEZ and in particular Blocks 12, 9, 13 and 3 before it enters Turkish and the so-called “Turkish-Cypriot” territorial waters either via Syria’s undetermined EEZ or via the arbitrarily defined EEZ of the occupied northern parts of Cyprus which is solely recognized by Turkey as the “TRNC” (“Turkish Republic of Northern Cyprus”). This is the plan suggested by former U.S. ambassador Matthew Bryza who currently sits in the Board of Directors of Turcas Enerji.<sup>83</sup>

Such a solution would be impossible in the absence of a comprehensive resolution of the Cypriot Problem and Nicosia has said that it would not link its gas export options with the potential restart of the proximity talks. Even if there are a few Greek-Cypriot politicians who would be ready to discuss a “Turkish” pipeline as a parallel option to the Vassilikos LNG terminal no one would be ready to drop Vassilikos in favor of a pipeline option especially if it would end up to Turkey.

Aphrodite’s size is too small to give Ankara the necessary incentives to move the Turkish-Cypriots closer to a comprehensive solution of the Cypriot problem in order to import 5-6 bcm/y from Aphrodite through a theoretically re-united Cyprus. The only quick method to change these dynamics and give Ankara a more “tangible” energy incentive would be to add another 10-12 bcm/y from Leviathan through a pipeline that would bring Israeli gas to Vassilikos.

<sup>83</sup> Mathew Bryza, “An Israel-Turkey Natural Gas Pipeline: Inter-Connection of Commercial & Geopolitical Logic”, *Oxford Energy Forum*, Issue 93, (August 2013), pp.10-13. The U.S. E.I.A. (Energy Information Administration) map is retrieved from the EIA’s Country Analysis Brief on the Eastern Mediterranean Region published on 15/08/2013, <http://www.eia.gov/countries/regions-topics.cfm?fips=EM>

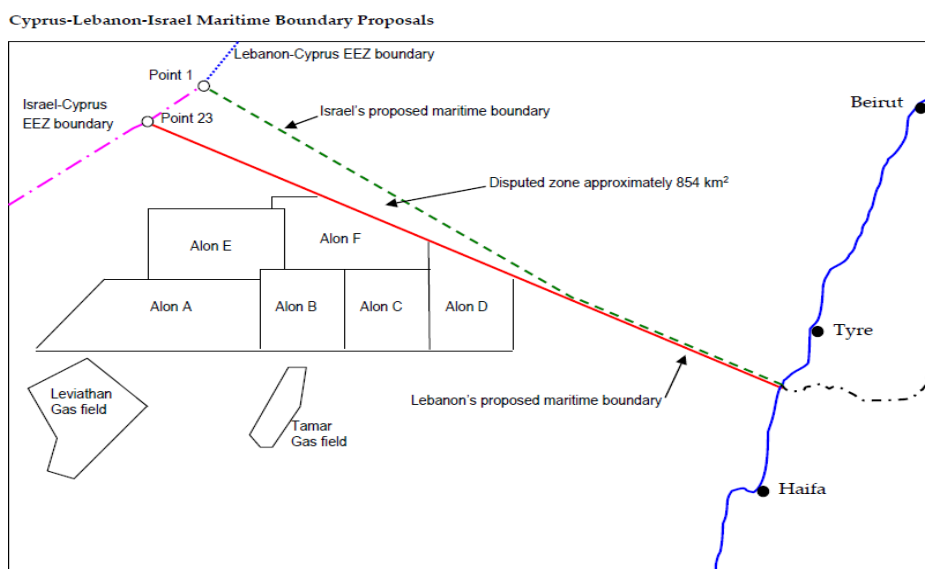
The political significance of this incentive should not be overestimated though, especially if it is linked to the restart of the proximity talks between the island's two principal ethnic communities. Such a restart is problematic for several reasons, not the least one, due to the persistence of the Turkish government to not recognize the existence of the Republic of Cyprus. One variation of this scenario - namely the linking of the gas pipeline with a comprehensive settlement- would have the gas shipped to Turkey via Cyprus and/or its Exclusive Economic Zone/EEZ, something Nicosia would consider *only after* the comprehensive resolution of the Cypriot Question *and* the construction of the Vassilikos LNG terminal.

A second variation of this scenario calls for the construction of a Turkish-Israeli pipeline through the Cypriot EEZ without the prior resolution of the Cypriot Question. According to this scenario a so called interim solution would be agreed in order to secure the "right of way" of the pipeline through Cypriot waters. It is not clear exactly what Cyprus would win from this interim solution but one of the most imaginative ideas recently presented by Mr. Bryza at an international gas conference in Pafos in early September 2013 was that Delek and Noble would utilize the profits from the sale of the gas to Turkey in order to finance the construction of the Vassilikos LNG plant at a later stage. *Yet even if one were to accept this idea there is no guarantee that the profits would actually go towards building an LNG in Vassilikos. Cyprus would have indirectly recognized the "TRNC" in exchange for exactly what?*

Would a more politically tangible *quid pro quo* be more acceptable to Nicosia? Would Ankara be ready to offer such an incentive, like for example the return of the Varosia area to its proper inhabitants under UN/EU control, in exchange for a Cypriot permit to Zorlu, Akfel, Turcas or anyone else who wants to build the Leviathan-Ceyhan pipeline? This is quintessentially a political question and it appears extremely unlikely that any stakeholder would be either willing or even able to provide the appropriate answer especially since Turkey's Prime Minister refuses to even recognize the right of the Republic of Cyprus to exist and implement the Ankara Protocol.

On its part Israel is unlikely to proceed with the *de facto* recognition of the "TRNC", a possibility it refused to consider even at the apex of its strategic alliance with Turkey during the second half of the 1990s when it planned to construct oil, gas and water pipelines in order to connect it to Turkey. The return of Mr. Lieberman to power has made it close to impossible for such a pipeline to exist even if it was built in a way that would simultaneously bypass Cyprus *and* Lebanon. *Noble and Delek are currently committed to the development of Aphrodite and the Vassilikos LNG terminal and are highly unlikely to jeopardize their investments in Cyprus for any Turkish Pipeline option that would essentially violate Cypriot sovereignty and constitute an indirect recognition of the "TRNC".*

***Offshore Bypassing Cyprus via the Lebanese EEZ:*** The third alternative would essentially bypass Cyprus but would have to go through Lebanese territorial waters or Lebanon's EEZ depending on the distance of the pipeline from the shore. The difference would be very significant in terms of cost since it could increase the cost by a factor of two if it goes via deeper waters. Given the existing state of war between Israel and Lebanon and their more recent friction over an area of 854km<sup>2</sup> that has frozen the development of the Alon F & Alon D blocks, *it is impossible for the Israelis to bypass both Cyprus and Lebanon when considering an underwater pipeline connection to Turkey.*



Source: *The Daily Star*.

For reasons of geography the pipeline would pass either through Cyprus' EEZ or through the area of the Lebanese EEZ, which is adjacent to the area of Israel's EEZ that is contested by Beirut. Moreover, a serious consideration of a Turkish-Israeli pipeline would make the ratification of the 2007 Cyprus-Lebanon EEZ agreement more, not less likely and torpedo Israeli efforts to find an accommodation with the anti-Hezbollah factions inside Lebanon. Even in the highly unlikely case that Turkey and Israel could reach an accommodation with Lebanon they would have to cross either Syrian territorial waters or Syria's EEZ which are undefined with both Lebanon and Turkey.

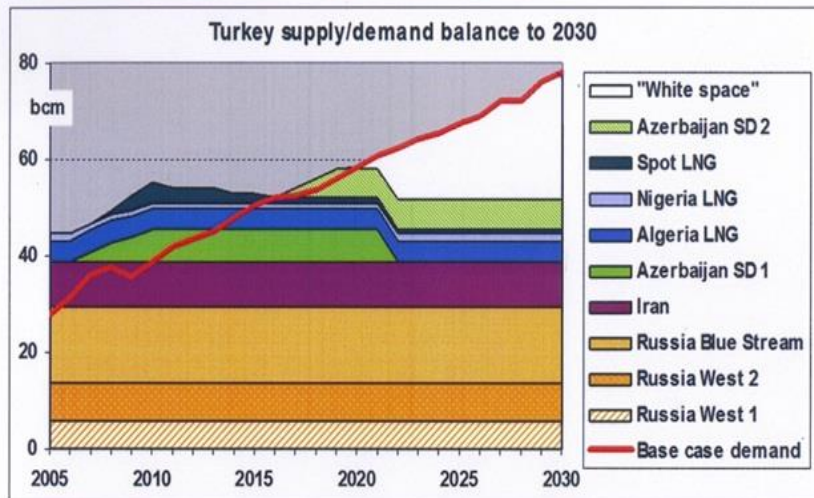
### 3.1.2. The Leviathan-Ceyhan Pipeline: Economic & Commercial Considerations

Apart from the multitude of geopolitical obstacles that undermine LCP's materialization, there are *three major commercial arguments* in favor of the LNG option regarding the export of Israeli and Cypriot gas:

**(1) Imbalanced Trade Relationship:** Any pipeline option for the export of Israeli gas to Turkey that does not provide Tel Aviv with a secure transit option for Europe would essentially trap any Israeli or Cypriot exporter in an imbalanced "semi-monopsony" trade relationship with Turkey. Since LCP would only be making commercial sense as an 8 bcm/y capacity pipeline, even if Israel commits at least 8 bcm/y over a 20-year period it would be exporting to Turkey over the life of the contract around 160 bcm, equal to 43% of Israel's entire export potential that is currently set at 370 bcm (40% of 920 billion cubic meters). This would make Turkey Israel's principal consumer. On the other hand even if Turkey consumes by 2020 up to 8 bcm/y of Israeli gas, it would be dependent on Tel Aviv for merely 13,79% of its projected demand estimated by BP at 58 bcm/y.



## Turkey's Growing Demand



- Big (45bcm) and fastest growing gas market in Europe
- Aggressive demand growth post 2009 recession (15% growth in 2011)
- Supply security is the overriding issue
- Dependent on imports – Russia, Iran, Azerbaijan and LNG

Source: BP Azerbaijan

Turkey could easily replace Israeli imports if it would decide to do so by increasing supplies from its LNG sources, Iran, Russia, Azerbaijan and (most probably by 2020) Kurdish Iraq. *Israeli/Cypriot exporters would not be able to find alternative export markets as easily as Turkey could find alternative importers from within its existing supply contracts and import infrastructures.* Israel does not have other possible clients able to consume 8-10 bcm/y even if it had the pipelines infrastructure with which to export this gas.

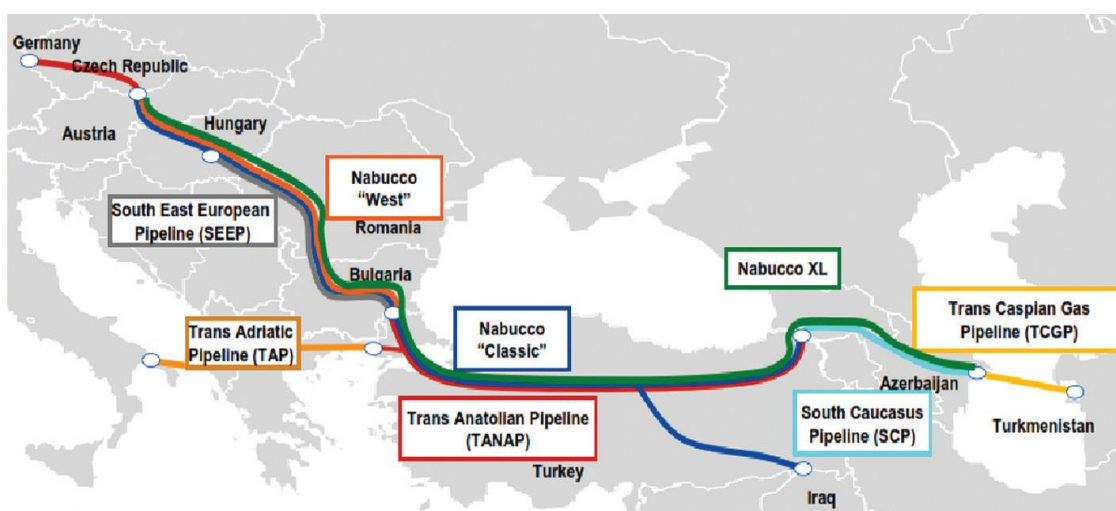
Moreover, any LNG liquefaction terminal would be utilized at full capacity as matter of revenue maximization. Woodside and Noble are not likely to construct a liquefaction terminal with an idle or “stand-by” liquefaction capacity around 8 bcm/y so as to provide Israel with alternative export options in case Turkey decides to stop its Israeli imports. Idle liquefaction capacity is far more costly than an underutilized pipeline. *In short, Israel’s export vulnerability vis-à-vis a sudden disruption of Turkish imports is more than double Turkey’s respective import vulnerability*

**(2) No Transit Option via Turkey to Europe:** An Israeli export option involving Turkey would make commercial sense only *if all exported volumes were to be consumed in Turkey.* The perception that a transit option for significant Israeli gas exports (more than 5 bcm/y) exists via Turkey to Europe is erroneous for the following *five* reasons:

(i) There is no spare transportation capacity within the National Gas Transmission System (NGTS) of Turkey capable of servicing the needs of even a 5-10 bcm/y export volume towards Europe. If there was any spare transit capacity of that magnitude, Turkey would not be asking the Trans Anatolian Pipeline (TANAP) partners to transport the 6 bcm of Shah Deniz 2 production, which will be dedicated to cover its domestic needs.

(ii) the construction of TANAP which will become operational circa 2017-2018 with a maximum transportation capacity of 31 bcm/y will be dedicated to the service of Turkey's needs (6 bcm/y) and the transportation of Azeri exports first from Shah Deniz (10 bcm) and thereafter from additional production from yet undeveloped fields such as Safag-Asiman, Umid/Babek, and Absheron. These fields could cumulatively increase export volumes by around 10 bcm by the early 2020s and this would take priority over any other available exports. The Shah Deniz consortium and BP demanded of the four final contesting projects (Nabucco, ITGI, TAP and SEEP) to propose a pipeline project with a final scalable capacity of 20 not 10 bcm/y, exactly because they want to factor into their long-term projections the availability of major gas exports *post* Shah Deniz 2.

This means that *if there would be spare transportation capacity in the TANAP system available to Israeli exporters it would be limited to less than 5 bcm/y and could become available after all Azeri export needs are covered. This is more likely to happen between 2023/2025 or latter.* Recently even Turkey's own Energy Minister, Taner Yildiz, acknowledged that "We don't feel the need to add gas from other countries," he said, pointing out that other gas fields such as Absheron, in the Azeri sector of the Caspian are also expected to produce gas which can be fed into TANAP".<sup>84</sup>



(iii) Consequently, in order to get the gas from Ceyhan to the Turkish-Bulgarian border, the champions of the LCP (Leviathan-Ceyhan Pipeline) would need to construct a dedicated pipeline independent of the existing Turkish NGTS. Such a pipeline would need to carry at least 10 bcm/y for a period of 15-20 years in order to become bankable and would cover a distance of approximately 970km *on a straight line*. Given the fact that Tractebel's cost estimates, used by

<sup>84</sup> "Turkey Doesn't See Iraqi, Israeli Gas in Planned TANAP pipeline: Minister", *Platts*, 25/11/2013, <http://www.platts.com/latest-news/natural-gas/istanbul/turkey-doesnt-see-iraqi-israeli-gas-in-planned-26489764>. Source for the Map: RWE.



the research conducted from the PRIO Center in 2013,<sup>85</sup> for onshore pipelines is calculated at \$670 million per 100km, the *minimum* cost for such a pipeline would be around \$6,7 billion provided that the pipeline is built as if it was built on a desert, with no detours and no altitude/terrain specificities factored into the cost estimate. In effect the cost would be higher than \$6,7 billion although no preliminary engineering study actually exists because Turkey claims that it can transport the Israeli gas through its existing capacity in the national transmission system. In order to put matters into perspective compared to actual versus imaginative costs, TANAP, which will have a maximum throughput capacity of 31 bcm/y and cover a distance of 2.000km instead of 970km, is estimated to cost anywhere from \$10-\$17 billion.<sup>86</sup>

(iv) Even if Israeli gas could somehow transit via the Turkish NGTS and reach Turkey's border with Europe there is no pipeline available to carry the Israeli gas to its final European destination. Both the Nabucco West and TAP projects were tailored to service up to 20 bcm of future Azeri gas exports. Since TAP prevailed over Nabucco West, Nabucco may present a theoretical alternative for Israeli exporters if they can resolve the lack of transit capacity in Turkey and get enough gas from Iraq, Iran or Turkmenistan in order to construct a 20-30 bcm/y capacity pipeline. Nabucco developers cannot make the same mistake twice and promote a pipeline with only Israeli gas even if 8-10 bcm/y would be available to them for a period of 15-20 years.

They would need at least another 10 bcm/y from Iraq or Turkmenistan before attempting to resurrect the currently defunct pipeline project. *In any case the cost of all three pipelines (Leviathan-Ceyhan + Ceyhan-Edirne + Nabucco West) necessary to connect Leviathan exporters with a major European hub like Baumgartern will be significantly more expensive than the construction of two trains of LNG in Vassilikos that are estimated to cost around \$10,5 billion.* Moreover any pipeline transit via Turkey would "offer" the Leviathan developers, considerable transit cost, significant transit risk and more importantly minimal market flexibility compared to any LNG option.

(v) In case Nabucco's developers would entertain the idea of Israeli gas exports, the final cost would still be significantly higher than any transit of Azeri gas due to the distance between Leviathan and Baumgarten and the comprehensive interconnectivity of all Balkan markets by 2017. In order for a resurrected Nabucco to make better economic sense and regain the transit approvals of the interested states, it needs to feed the markets -especially high profit markets as it is the case in the Balkans- through which it transits. Smaller scale pipelines capable of transporting up to 5 bcm/y will integrate the markets of Greece-Bulgaria-Romania-Hungary and Serbia by 2017 at the latest. This would therefore eliminate the need for a Nabucco-size pipeline originating in Turkey for the export of Israeli gas to Central Europe.

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<sup>85</sup> Ayla Gürel, Fiona Mullen & Harry Tzimitras, *The Cyprus Hydrocarbons Issue: Context, Positions and Future Scenarios*, PCC Report 1/2013 (Nicosia: PRIO Cyprus Centre, 2013), p.85.

<sup>86</sup> This is the estimate of Kenan-Yavuz the head of Socar's Turkish subsidiary. "TANAP project cost to increase up to \$10 billion", US-Azerbaijan Chamber of Commerce, <http://www.usacc.org/news-a-publications/investment-news/637-tanap-project-cost-to-increase-up-to-10-billion.html>



After the collapse of Nabucco, Turkey will most likely speed up the process of constructing its own Interconnector pipeline with Bulgaria in order to balance the strategic advantage Greece will acquire through the completion of the IGB. *It should be noted though that this chain of interconnecting pipeline begins in Greece, since there is still no viable plan for the construction of a Turkish-Bulgarian gas interconnector given the fact that Bulgaria would need to pay for over 90% of its construction.*

If Israeli exporters would not wish to reach Baumgarten and target the higher value Southeast European markets (Bulgaria, Romania, Serbia, Hungary, Greece), they are more likely to export their gas to Greece’s main LNG import terminal in Revythousa and secure swap arrangements with all Balkan states. Revythousa after the expansion of its storage and regasification capacity will be able to process up to 5 bcm/y of LNG imports equivalent to the cumulative requirements of the four principal regional consumers (Serbia, Romania, Bulgaria and Hungary) in South East Europe.

**Prices**

US dollars per million Btu	LNG Japan cif	Natural gas				Crude oil OECD countries cif
		Average German Import Price*	UK (Heren NBP Index)†	US Henry Hub‡	Canada (Alberta)‡	
1985	5.23	4.25	-	-	-	4.75
1986	4.10	3.93	-	-	-	2.57
1987	3.35	2.55	-	-	-	3.09
1988	3.34	2.22	-	-	-	2.56
1989	3.28	2.00	-	1.70	-	3.01
1990	3.64	2.78	-	1.64	1.05	3.82
1991	3.99	3.19	-	1.49	0.89	3.33
1992	3.62	2.69	-	1.77	0.98	3.19
1993	3.52	2.50	-	2.12	1.69	2.82
1994	3.18	2.35	-	1.92	1.45	2.70
1995	3.46	2.39	-	1.69	0.89	2.96
1996	3.66	2.46	1.87	2.76	1.12	3.54
1997	3.91	2.64	1.96	2.53	1.36	3.29
1998	3.05	2.32	1.86	2.08	1.42	2.16
1999	3.14	1.88	1.58	2.27	2.00	2.98
2000	4.72	2.89	2.71	4.23	3.75	4.83
2001	4.64	3.66	3.17	4.07	3.61	4.08
2002	4.27	3.23	2.37	3.33	2.57	4.17
2003	4.77	4.06	3.33	5.63	4.83	4.89
2004	5.18	4.32	4.46	5.85	5.03	6.27
2005	6.05	5.88	7.38	8.79	7.25	8.74
2006	7.14	7.85	7.87	6.76	5.83	10.66
2007	7.73	8.03	6.01	6.95	6.17	11.95
2008	12.55	11.56	10.79	8.85	7.99	16.76
2009	9.06	8.52	4.85	3.89	3.38	10.41
2010	10.91	8.01	6.56	4.39	3.69	13.47
2011	14.73	10.48	9.04	4.01	3.47	18.55
2012	16.75	11.03	9.46	2.76	2.27	18.82

\*Source: 1984-1990 German Federal Statistical Office, 1991-2012 German Federal Office of Economics and Export Control (BAFA).  
 †Source: ICIS Heren Energy Ltd.  
 ‡Source: Energy Intelligence Group, *Natural Gas Week*.  
 Note: cif = cost+insurance+freight (average prices).

**Source:** BP Statistical Review of World Energy, 2013.

**(3) Net Profits:** Although a LCP that will export Israeli gas only to the Turkish market is the *second* less costly export option for Israeli gas,<sup>87</sup> it is not necessarily the most profitable option for Leviathan’s developers compared to any LNG alternative. So let’s ask a reverse question. *Why would Nicosia and Tel Aviv not choose an LNG option over a pipeline to Turkey even if it is less costly to construct?* There are several reasons for this:

<sup>87</sup> Only Israeli exports to Egypt and an export pipeline to Jordan would be cheaper exports options for Israel.

(a) *Higher LNG Profit Margins:* The best price Turkish off-takers would be willing to pay for Cypriot/Israeli gas is estimated at approximately \$8.5/mbtu (million British thermal units). LNG prices in Europe were estimated in 2012 at \$11-12/mbtu and Japanese benchmark prices are anywhere between \$15-17/mbtu. If Delek and Noble decide to liquefy 10 bcm/y of their gas in Vassilikos the net profit margins of the LNG option *for the second LNG* train can be several times higher than the \$1-\$1.75/mbtu Cypriot and Israeli exporters would hope to get from selling their gas to Turkey.

Turcas has claimed that it would be willing to cover the entire cost of constructing and operating a 480km underwater pipeline of 8 bcm/y capacity that would cost anywhere between \$2-\$3 billion. *In this scenario, if Noble/Delek, are not burdened at all with the cost of transporting the gas to Turkey, Turkey becomes nearly equally attractive (at \$2,5-\$3/mbtu), in terms of net profits, for Leviathan's developers as any LNG destination in Southern Europe, provided Israeli gas is consumed in Turkey and does not transit to Europe.* If the overall cost for the development of Aphrodite/Leviathan gas through an LNG terminal in Vassilikos is around \$8-\$9/mbtu, then gas exports to Europe's less interconnected (Balkans) and higher value Mediterranean destinations in Italy, Greece, Spain and France, can generate a net profit of approximately \$2.5-\$3/mbtu.

If export contracts to Asian markets are closed by Delek/Noble within 2015-2016, especially *before* East African LNG development projects (especially from Mozambique) are launched then the potential profit margins could be as high as \$7-\$8/mbtu. That is why it is very likely that at least 50% of the projected exports from Aphrodite and Leviathan would find their way to Asian markets and not the EU. The ongoing debate about whether Cypriot gas would be sold to Asia due to the expected increase of Australian exports and Chinese shale gas by the late 2010s *is irrelevant.*

*The participation of KOGAS, South Korea's state controlled natural gas company, in the ENI-led consortium, which is exploring for hydrocarbons in Cyprus' offshore Blocks 2, 3 & 9, guarantees that a significant share of potential Cypriot exports would reach Asian markets, even if they are exclusively consumed by South Koreans. KOGAS is not in Cyprus in order to sell Cypriot gas to Europe. KOGAS is in Cyprus to sell Cypriot gas to Seoul and Seoul is, at the end of the day, the world's second largest consumer of LNG, after Japan. Such an export strategy -equally dividing Cypriot LNG exports between Europe and Asia- would generate an average net profit for LNG exports at \$5.125/mbtu compared to a best estimate of \$3/mbtu for the Turkish pipeline option.*

(b) *Higher Demand Security due to Multiple and "Substitutable" Export Destinations:* Another important advantage of LNG is that it ensures a higher level of demand security from the exporter's point of view. Pipelines commit an exporter to one particular market for a very long time and at a relatively steady price, especially if this market is not well interconnected with other markets so as to provide alternative client options to the exporter.

Committing more than half -in the case of Israel- or the totality -in the case of Cyprus- of your exports to one market through one export venue is not a very good idea for a new exporting country if the political climate between exporter/importer is unstable. There are no "Peace Pipelines" who were constructed and operated in a hostile political environment for a very long-time, unless the economic cost of breaking this relationship was equally high for both sides, as it was the case with the Soviet Gas pipelines to NATO-Europe in the 1980s.

This is not the case for a potential Israeli/Cypriot pipeline to Turkey. As it has been already noted, an Israeli/Cypriot export pipeline to Turkey, regardless of its size and route, will also need to overcome a series of major geopolitical impediments that relate not only to the region's increasing volatility but also to the political preconditions necessary to construct a multibillion \$ investment which will need to operate for decades. If Turkish-Israeli relations would return to a status of hostility within the life expectancy of the Leviathan-Ceyhan pipeline, can Israel find readily available alternative export destinations in case Turkey cancels its own imports or stops the transit of Israeli gas through its territory even if such a transit were economically viable? The answer is negative. Gas pipelines do not get build in a matter of months.

LNG liquefaction capacities are not constructed in a matter of months and they cost a lot of money to remain idle as Egypt's experience clearly illustrates. Building excess LNG export capacity as a back-up to a potential disruption of pipeline-based exports is highly expensive and counterintuitive. Furthermore, the structure of the international gas market -even the LNG market- is dominated by Long-Term contracts that are too inflexible to allow an exporter to find alternative clients in case its principal market destination is lost, especially if this market was serviced through pipelines and represented such a large portion of its entire export capacity.

*(c) Minimal Transit Risk:* Another major advantage of the LNG option is that it has no transit risk. In this context, the Russian-Ukrainian gas transit crises of 2006 and 2009 are irrelevant. The possibility of a new war between Russia and Georgia as well as PKK attacks on the pipeline routes in North-Eastern Asia Minor become also irrelevant. The main political risk factors which could sever the flow of gas from Azerbaijan to Europe do not constitute a political risk factor when you are dealing with an LNG option. The experience of the last decade illustrates the need to maximize the diversification of EU imports routes and limit EU dependence on one or more transit states. No one wants to see Turkey, especially a Turkey that does not comply with the EU *acquis*, to emerge as a second Ukraine in terms of the volumes of gas that would be crossing Turkish territory on their way to European destinations.

*(d) More Cost Effective Scalability:* The second LNG liquefaction train is on average 25% less expensive than the first and the third 25% less expensive than the second. LNG trains do not require the same space and land acquisition costs as a second parallel pipeline with the same capacity as the first one. That is why Vassilikos can accommodate a maximum of three LNG trains but could grow to eight trains if Cyprus relocates a small naval base that is adjacent to the Vassilikos area. The cost of building a second Leviathan-Ceyhan underwater pipeline will be exactly the same as the cost of building the first underwater link. This scalability essentially increases project profitability by significantly reducing construction costs.

### **3.2 LNG Exports: The Vassilikos Option**

The discovery of the Aphrodite gas field in December 2011 has given rise to a series of expectations that are much larger than the actual size of the field itself. This has happened because: (a) it constituted Noble's third consecutive major find in the Eastern Mediterranean in less than three years, (b) it legitimized the views of senior Cypriot bureaucrats and politicians who had been advocating the need for an aggressive exploration program for at least a decade and (c) created the erroneous impression that Aphrodite could somehow provide a quick-fix solution for the Republic's financial problems.

In June 2012 the Christofias government and in March 2013 the Anastasiades government both acknowledged as their principal export choice the construction of an LNG liquefaction plant in the Vassilikos area with an initial capacity of almost 7 bcm (6.8 bcm to be precise), while also considering the potential construction of an underwater pipeline between Israel, Cyprus and Greece as a more long-term prospect that will complement but not substitute its strategic LNG choice.

The difference between the timing of the two government decisions is that Christofias expected that Israeli gas from Leviathan would be liquefied in Vassilikos and thus secure the financial viability of the project. In effect, Noble/Delek proposed since late 2010 the construction of underwater pipelines linking Leviathan and whatever gas volumes would be discovered in Block 12 with Vassilikos.<sup>88</sup>

### 3.2.1. Economic & Regulatory Parameters

Even an 8 bcm/y pipeline from Leviathan for a period of 15-20 years would suffice for the construction of 2 liquefaction trains increasing the Vassilikos export capacity to 14 bcm. In mid-2013 Anastasiades understood that there is significant probability that no Israeli gas would be coming to Vassilikos and that he could no longer afford to wait on the Israelis to make up their mind on how much gas they would export in what way and in what direction.

What Anastasiades and his government also understand is that the size of Aphrodite's reserves, estimated, according to the results (September 2013) of Noble's first appraisal well, at 100,8-168 bcm with an intermediary estimate of 140 bcm, do not suffice for the construction of even one LNG train especially since Cyprus' domestic long term demand is projected to be around 30 bcm for a period of 30 years expanding from 0.5 bcm for the first 5 years to anywhere between 1-1.5 bcm from the 5<sup>th</sup> to the 10<sup>th</sup>-15<sup>th</sup> year and 2.7 bcm/y after the 10<sup>th</sup>-15<sup>th</sup> year depending on whether Cyprus converts its fleet of passenger cars, buses and light trucks to gas-fired vehicles.<sup>89</sup>

Cyprus is too small as a market to justify an investment of several billion \$ for the production and transportation of gas to Vassilikos, if no export option exists. Gas from Aphrodite for Cyprus is thus dependent on the existence of a viable export option for Noble/Delek. This is exactly why the appraisal drilling on the Aphrodite field was of vital importance for Cyprus' emergence as a potential gas exporter. The drilling failed to provide us with a concrete estimate of the actual reserve but significantly downgraded expectations. In effect the appraisal confirmed as an intermediate estimate (140 bcm) what was the worst case scenario of exploratory drilling that was completed back in December 2011.

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<sup>88</sup> "Israel's Delek Group Proposes Building LNG Facility in Cyprus", *Middle East Economic Survey*, 12/01/2011.

<sup>89</sup> Dr. Charles Ellinas, "Cyprus LNG: Optimizing the Export Options", *Oxford Energy Forum*, *ibid*, p.16. Giamouridis estimates that by 2025 Cypriot gas demand for electricity and industrial/domestic use will mount to 1.7 bcm/y with an additional demand increase of 1.2 bcm/y if the gas ends-up dominating the transportation sector. Anastasios Giamouridis, *The Offshore Discovery in the Republic of Cyprus: Monetization Prospects and Challenges*, *Oxford Institute for Energy Studies*, NG 65 (July 2012), p.12.

As a result Cyprus is faced with two basic options: (a) freeze its efforts in expectation of additional discoveries by Eni/Kogas and Total and not consider a floating liquefied natural gas (FLNG) export option since it needs to consume part of Aphrodite's gas internally and (b) heavily lobby Tel Aviv to export 8-10 bcm/y of Leviathan's gas for liquefaction in Vassilikos. There is also a third -intermediate- option. If the second appraisal drilling and the first exploratory drilling Noble plans for late 2014 in two other promising targets within Block 12 increases the combined reserves estimate to 200 bcm, then Nicosia can go ahead and take a final investment decision for a single LNG train within 2015.

Dr. Charles Ellinas, who served at the time as the Executive Chairman of Cyprus National Hydrocarbons Co. (CNHC) noted<sup>90</sup> that the Vassilikos terminal could become financially viable with as little as 140 bcm, a questionable claim given the fact that the major profits for an LNG terminal are usually generated from the second and third liquefaction trains that are significantly less expensive to construct than the original 1-train installation. Such a scenario could work only if Cyprus delays or extremely limits its domestic gas demand for a period of several years a prospect that is highly improbable from a political point of view. The prospect that *Block 12 could contain as a whole the minimum 168 bcm* necessary to build a single LNG train led Noble & Delek to sign the MoU on the Vassilikos LNG in June 2013.

Solon Kassinis, the Executive Vice-Chairman of the Cyprus National Hydrocarbons Company (CNHC) -who resigned in July 2013-, has on several occasions estimated that all 13 Blocks of the Cypriot EEZ could hold as much as 1.7 tcm, although neither Total nor ENI/Kogas have yet announced any pre-drilling estimates of what they expect to find in their Blocks. Ellinas, has estimated a 1.132 bcm reserves basis for the six blocks which have been tendered off including Aphrodite.<sup>91</sup>

Only Noble has announced a pre-drilling estimate for its second prospective target at 28-56 bcm. As already noted Noble is expected to drill this prospect in 2014 and completed a detailed 3D seismic survey over the potential target in August 2013. In effect by the end of 2014 Nicosia and Noble/Delek should know the exact volumes of commercially exploitable gas that exist in Aphrodite and have a credible estimate of the reserves in Block 12. Before this volume is accurately defined all else remains speculative.

Total and ENI/Kogas have merely noted that they are currently in the process of further analyzing the seismic data in their possession. Once this analysis is complete exploratory drilling will follow in late 2014 and early 2015. It is not clear if all five blocks will be drilled in 2014 but the process is likely to move fast since both companies are expected to bring their own drilling platforms from outside the region. Noble has faced significant delays in its exploratory efforts in both Cyprus and Israel due to the unavailability of drilling rigs in the area. By deploying their own rigs ENI and Total indicate their willingness to complete their exploration program as soon as possible. Total in particular is most likely to complete its initial exploration program in 2014.

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<sup>90</sup> Dr. Charles Ellinas, *East Med Gas: Challenges*, ELIAMEP, Special Training Seminar on Regional Energy Geopolitics and the Role of Greece, (Athens: 27 September 2013).

<sup>91</sup> Solon Kassinis Interview with PIK TV show, *Eponymos (Επωνύμως)*, on 11 December 2012 & Dr. Charles Ellinas, *Developments & Opportunities in Cyprus Offshore Exploration*, 4<sup>th</sup> Annual Mediterranean Oil & Gas Conference, (Athens: 12 June 2013), p.4.

To most Cypriot policy-makers, it is only a matter of time before enough gas is discovered or confirmed to support a 7 bcm liquefaction plant in Vassilikos. For some the real question is how to best manage future discoveries lying underneath the Cypriot EEZ and in particular Block 9 which according to Ellinas and Kassinis holds reserves even larger than those discovered in Aphrodite. Regardless of when Cyprus would find enough gas to finance the Vassilikos LNG, an important issue that Nicosia will have to deal with, is its ability to finance the export infrastructure necessary to monetize Aphrodite's reserves.

Since Noble/Delek will carry the entire financial burden for the production of gas from the sea bed to the floating production, storage and offloading (FPSO) vessel, Cyprus may have to share the cost for the transportation of the natural gas to Vassilikos and the construction of the liquefaction plant. It is not presently clear if the present government will follow its predecessor's decision to control 51% of the LNG plant and 51% the Aphrodite-Vassilikos pipeline. The combined cost for the LNG plant and the offshore pipeline varies between \$8 and \$10 billion of which Cyprus may decide to finance 51%. If this is the case, how can a nearly bankrupt island-state be able to marshal the necessary \$4-5 billion?

One way to reduce the cost for Nicosia would be to drop its demand regarding the control of the offshore pipeline connecting the Aphrodite field with Vassilikos. Due to water depth, pressure, and seabed morphology the pipeline would have a maximum transportation capacity of around 15-16 billion cubic meters per year and cost anywhere between \$1.5-\$2.5 billion of which Nicosia may have to finance 51%. Given the fact that Noble/Delek are not able to finance the construction of an LNG plant in Cyprus without the support and approval of the Cypriot government, it would be impossible for Noble/Delek to build the pipeline and not liquefy the gas in Vassilikos. If that were the case they would have gone for FLNG from the beginning.

Hence it would be preferable for Nicosia to focus its efforts on the financing of what actually matters, namely the liquefaction plan and in doing so reduce the requirement of its financial contribution by \$1-\$1.25 billion. Even if Anastasiades revises Christofias' plans and concentrates its efforts on the financing of the LNG plant Cyprus still needs \$3-\$4 billion that it doesn't have and can't borrow from international markets. In such an asphyxiating environment, Nicosia is left with two realistically available options (a) Pre-Selling and (b) Finance in exchange for Guaranteed LNG Contracts.

(a) CNHC, before its dissolution in October 2013, planned to negotiate pre-selling contracts with a series of probable buyers by 2014; however this is a complicated process that holds considerable risk for the seller in case he is unable to fulfil the deadlines set in the contract. Moreover the actual price benefit of a pre-selling for the exporter is limited to 5%-10% above the current price.

It is not yet clear whether the present government will accept this course of action and the extent of Cyprus' participation in the joint venture company that will build, own and operate the LNG facility. Cyprus may also use the confirmed Aphrodite reserves as collateral for an International Public Offering bond, although this could prove to be less appealing since the bond is most likely to be rated at the same level as Cyprus' national debt.

(b) The second option could be more appealing and could minimize Cyprus' obligation to finance the LNG terminal. One variation of this scenario is for Cyprus to get loans from potential consumers of LNG in exchange of future LNG sales. This is a form of pre-selling but would minimize the lending cost for at least the first liquefaction train that will in any case be *less*



profitable than the second or third train. It also provides demand security for LNG exports, secures a 51% control over the entire liquefaction terminal and allows Cyprus to get gas from Aphrodite for its own needs, but the most important drawback is that Cyprus may have to offer a major discount relevant to the current LNG export prices and sacrifice part of its price-setting flexibility over the life of the sales contract.

A second variation requires a far more drastic change of the existing policy. It argues for a drastic reduction of Cyprus' control only over the 1<sup>st</sup> liquefaction train to 5% of total shares in the SPV (Special Purpose Vehicle) that will be established in order to build own and operate it. If Noble/Delek were to limit their shares of the profits from the Production Sharing Agreement (PSA) and take the entire upstream cost from Production to Liquefaction, Nicosia would still make major profits as a result of its dominant share in the PSA, get gas from Aphrodite for its domestic consumption that would allow it to reduce the cost of electricity by 50%, limit its debt liabilities to a minimum and increase its bargaining position vis-à-vis Eni/Kogas and Total when the time comes to discuss the ownership of their liquefaction trains. The drawback of course would be the loss of ownership over the first liquefaction plant.

Part of the reason why the government has yet to decide on these open questions may relate to the internal policy-making review which is ongoing under the supervision of Minister Lakkotrypis with regards to the roles of DEFA and CNHC. The results of this policy-review cannot be taken for granted. There have been talks of merging DEFA with CNHC although it appears more likely that the *new E.Y.K.-Εταιρία Υδρογονανθράκων Κύπρου, Cyprus Hydrocarbons Co will not be merged with DEFA (Public Gas Co)*. Regardless of the liquidation, restructuring or merging of DEFA and/or CNHC, Cyprus is most likely to keep a share of the JVC which will develop Vassilikos in ways that minimizes its obligation to finance the project in the short-to-medium term. In any case if the reserves in Block 12 turn out to be sufficient for at least one LNG train, Cyprus would be able to count on the assistance of the European Investment Bank as it was stated by EIB's President Werner Hoyer during a recent visit to Nicosia in late May 2013.<sup>92</sup>

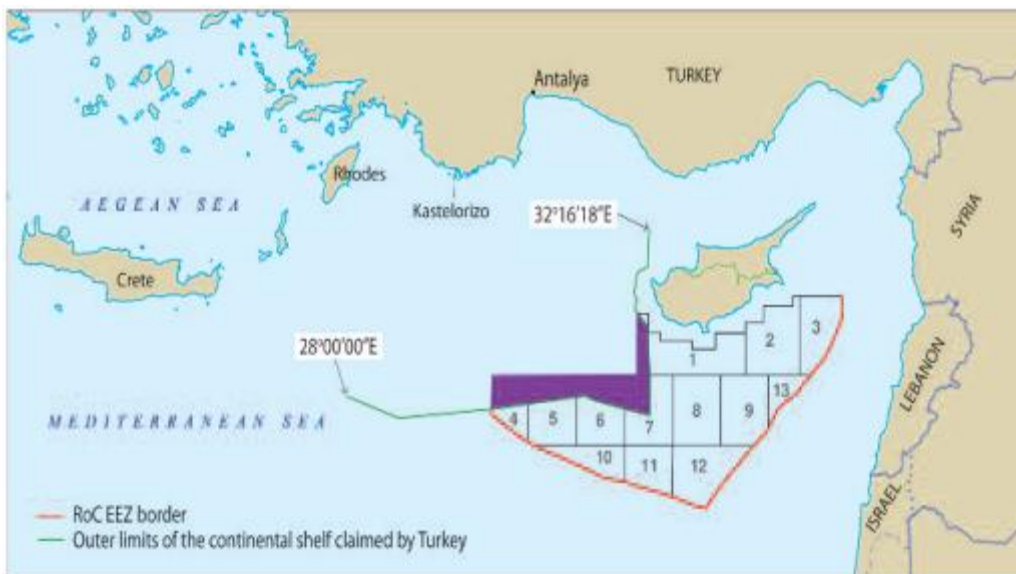
### 3.2.2 Geopolitical risks

The discovery of Aphrodite, and more importantly the probable discovery of 3-4 Aphrodite-size reserves as a result of the forthcoming Total/ENI-Kogas exploration programme by late 2015, could offer a very positive incentive for the resolution of the Cypriot question provided that Nicosia is able to partly balance off Ankara's geostrategic preponderance and simultaneously encourage the Turkish-Cypriots to follow a more conciliatory approach in the stagnated peace process. If Turkey continues to have a geostrategic stranglehold over the geographically isolated EU-island it has no incentive whatsoever to reach a compromise over Cyprus in ways that would also be acceptable to the Greek-Cypriots and Greece. The challenge for Cyprus is to find the appropriate mix of incentives for Turkey and the Turkish-Cypriots that would generate the impetus for a just and viable compromise without: (a) endangering its sovereignty, (b) legally recognizing the so-called "TRNC" or (c) freezing its hydrocarbon development in case a resolution of the Cypriot Question is not reached.

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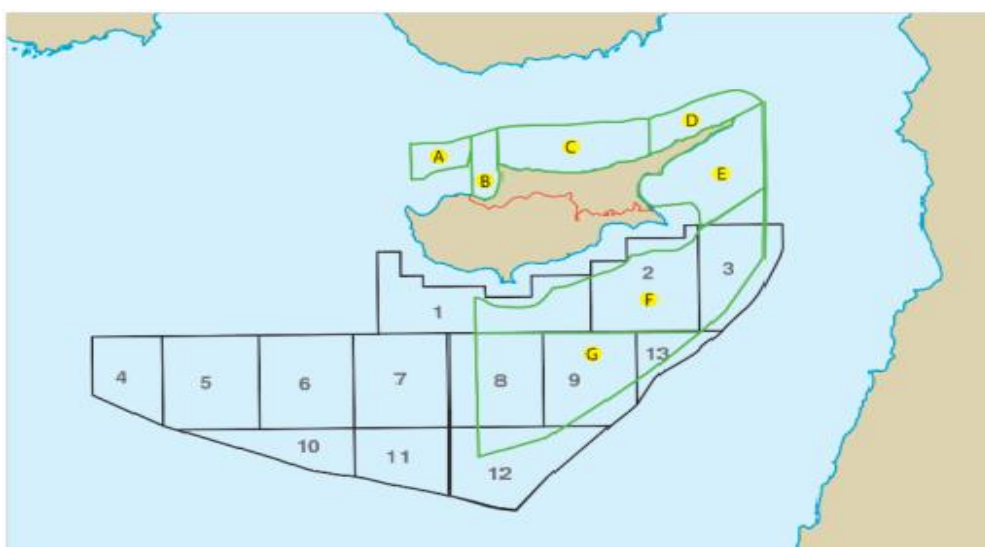
<sup>92</sup> "EIB Says It Would Consider Backing Cyprus LNG Terminal", *Reuters*, 30/5/2013, <http://www.reuters.com/article/2013/05/30/cyprus-eib-lng-idUSL5NoEB2D620130530>

Turkish Claims over Greek and Cypriot Exclusive Economic Zone<sup>93</sup>



Most of the major Greek-Cypriot parties have formulated a zero-sum game approach with regards to Turkey and the Turkish-Cypriots. This zero-sum game approach would accept to share part of the hydrocarbons-generated wealth only after a comprehensive solution of the Cyprus Problem is reached. This position is hardly unjustified given Turkey’s maximalist positions. Ankara does not recognize the existence of the Republic of Cyprus. As a result it has claimed the near entirety of Cyprus’ EEZ either directly (Blocks 1, 4, 5, 6, & 7) or on behalf of the Turkish-Cypriots (Blocks 1, 2, 3, 8, 9, 12 & 13) and has attempted to use its military might coercively in order to deter Nicosia and Noble Energy from carrying out the exploratory drilling that discovered the Aphrodite reserve.

Turkish-Cypriot Claims on Cyprus’ Exclusive Economic Zone<sup>94</sup>



<sup>93</sup> Gürel, Mullen & Tzimitras, *The Cyprus Hydrocarbons Issue*, ibid, p.53.

<sup>94</sup> Ibid, p. 65.

Apart from Turkey's attempt in September-November 2011 to force Noble to stop the exploration drilling in Aphrodite (see chapter 1), in June 2013 Turkey's ships tried again to stop Noble's exploratory vessel from reaching Block 12. Ankara is also claiming large areas that fall within Greece's continental shelf around the island of Castelorizo and questions Greece's future EEZ boundaries with both Cyprus and Egypt. Only Blocks 10 & 11 of the Cypriot EEZ are not claimed by either Turkey and/or the Turkish Cypriots. Maybe they were left as an incentive for Egypt's Islamic Brotherhood that Ankara was trying to convince to either revise or unilaterally annul the 2003 EEZ agreement the previous government signed with Nicosia.

These blocks were tendered by Nicosia to Total in February 2013. Moreover, Turkey has threatened to impose an investment embargo to any IOCs active in Cyprus' EEZ and has carried out this threat against ENI's 50% participation in the Samsun-Ceyhan oil pipeline project that was in essence a "paper" project. TPAO, Turkey's state oil & gas company has also commenced its own exploratory drilling (April 2012) onshore in the occupied territories of Northern Cyprus and plans to drill offshore within the blocks "awarded" by the Turkish-Cypriots to TPAO in 2012.

It has also said that it will dispatch its recently acquired oceanographic vessel Hayrettin Barbarossa to conduct 3-D seismic surveys inside the Cypriot EEZ, a move that is perceived as highly provocative by the Greek-Cypriots. In December 2013 Barbarossa was sent to Cypriot waters but, interestingly enough, it remained *by and large* within the waters claimed by the Turkish Cypriots as part of the so-called EEZ of the "TRNC". The seismic oceanographic vessel was accompanied by a warship from the Turkish fleet of the Eastern Mediterranean, a development which prompted Greece to dispatch the frigate *Salamis* to Limassol. The frigate arrived in Limassol on 6 December 2013.<sup>95</sup>

The cumulative effect of what the Greeks and Greek-Cypriots perceive as Turkish threats has removed from the negotiating table the option of constructing a gas pipeline that would export Aphrodite's resources to the Turkish market. This option has now become dependent on the resolution of the Cypriot problem but remains the easiest and cheapest export option available to Cyprus if it decided to sell its gas *only* to Turkey and at a *very mediocre* price. Cyprus would have a real incentive to send its gas north only in the context of a comprehensive solution of the Cypriot question but should not overestimate the importance of its current "gas card" if the proximity talks with the Turkish-Cypriots begin in 2014. In commercial terms Aphrodite's volumes are negligible compared to Turkey's domestic demand.

In geostrategic terms, the "gas card" does not mean that Nicosia could turn the tables on Turkey as a result of its current and potential hydrocarbon discoveries, but it could mean that Cyprus may grow powerful enough to get a settlement that is significantly better than what it got in 2004 by the so-called Kofi Anan Plan which was overwhelmingly rejected by the Greek-Cypriots. Turkey understands this potential shift in the bilateral balance of power and that is part of the reason why it wants to re-start the proximity talks between Turkish-Cypriots and Greek-Cypriots as soon as possible.

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<sup>95</sup> <http://www.ant1iwo.com/kypros/2013/12/06/nees-toyrkikes-proklhseis-shmera-me-to-m>

Yet, despite its urgency and relative hastiness, Ankara is finding it increasingly difficult to dissuade major IOCs from investing in the emerging Cypriot natural gas market. This does not mean that the risk of heightened tensions will be eradicated. The risk will always exist and it is a risk which is inherent to the oil & gas business. What is pertinent though is that this risk is not likely to paralyze the development of Cypriot hydrocarbons nor is it likely that the development of Cypriot hydrocarbons would be dependent on the resolution of the Cypriot question.

The possibility of a Turkish military strike against Cypriot LNG facilities or against the IOCs developing the Republic's hydrocarbon resources is not perceived as a serious risk by the interested state parties, the EU and the IOCs that are involved (or are willing to get involved) in Cyprus. That is why Turkey is more likely to increase its diplomatic and economic pressure on the major Anglo-Saxon companies, such as Shell, Exxon and BP, which are already active in Turkey in order to keep them out of Cyprus if further major discoveries are made by ENI/Kogas and Total.

In addition, Turkey is also likely to step up its own exploration efforts in the occupied territories and waters of the "TRNC" in an attempt to diplomatically counterbalance the progress already made by the Republic of Cyprus since 2011. If exploitable reserves are discovered in the self proclaimed "TRNC" or the yet undetermined Cypriot EEZ with Syria and Turkey, Nicosia will be faced with an additional diplomatic headache since it would be forced to block the export of these resources outside the "TRNC" and hinder Turkish attempts to utilize international assistance in the development of these resources. Turkey's TPAO may also buy its own drilling platform and attempt to drill next to Noble's, ENI's or Total's offshore platforms, a move that is most likely to be countered by Israel since the Aphrodite field is shared between Israel and Cyprus.

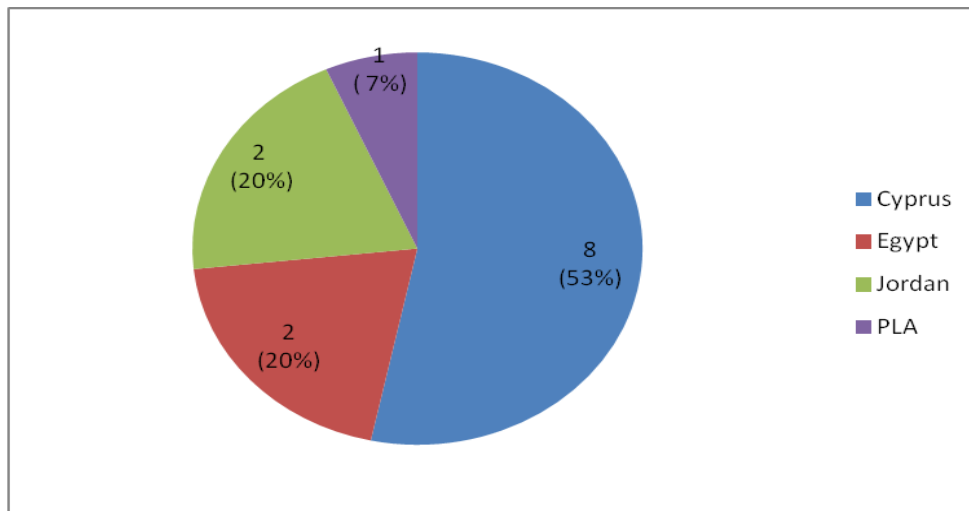
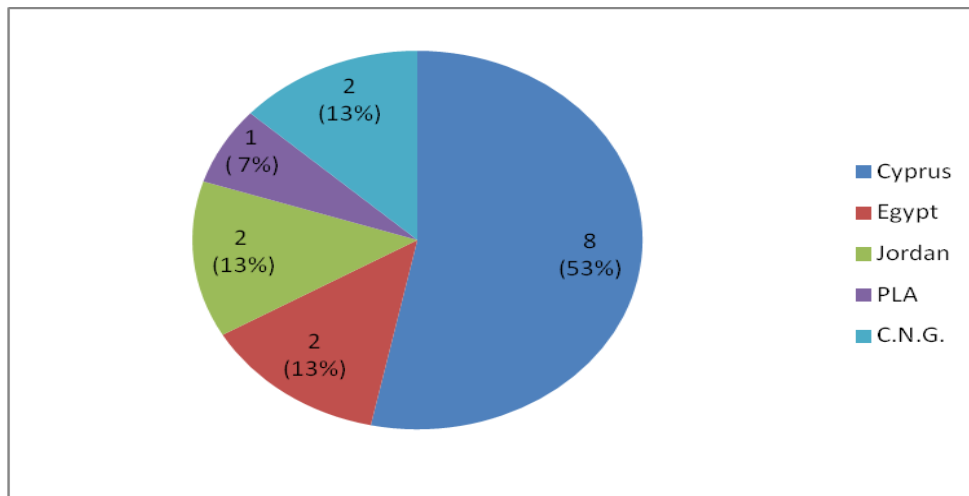
In any case from the Cypriot point of view, a 7-14 bcm/year LNG terminal in Vassilikos by 2020 may cost more to develop than a pipeline to Turkey, but its commercial and geostrategic benefits could out-weigh the cost of its expected capital investment a hundred times over since it can transform Cyprus from a European problem into a European asset. As the EU's Energy Commissioner Gunther Oettinger recently noted during an Energy Investment conference organized by *The Economist* in May 2013 regarding Turkish reactions vis-à-vis Cyprus "the natural gas discoveries off Cyprus do not belong to Turkey...Cyprus can play an important role in the European energy markets and the prospects that are opened in the natural gas sector constitute a "win-win" situation for all countries in the South-eastern Mediterranean. In that sense, I am confident that Turkey will keep a constructive approach since it has to gain a lot of economic benefits by the transportation of these resources".<sup>96</sup>

Apart from the political impossibility of a Turkish pipeline option in the absence of a comprehensive settlement, Cyprus simply does not currently have enough gas to build the Vassilikos LNG and a pipeline to Turkey, Greece or anywhere else. If more gas reserves are discovered over the next three years, a pipeline option to Greece and via Greece to Europe could become more realistically attainable, although such a project would still have to overcome major technical challenges. *In any case Nicosia is more likely to seriously consider such an option after more than one LNG train in Vassilikos is fully operational.*

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<sup>96</sup> <http://www.energypress.gr/news/Oettinger:-Win-win-to-energeiako-paihni-sth-NA-Mesogeio>  
29/05/2013.

**Indicative Distribution of Israeli Gas Exports between Cyprus and the Near East  
(in Billion Cubic Meters)<sup>97</sup>**



As far as Israel is concerned, if Nicosia succeeds in getting Woodside on board the Vassilikos LNG consortium, then the commercial case for the Israeli government may prove too difficult to overlook, especially if Greece, Italy and France would increase their naval presence within Cyprus’ EEZ and fully utilize the Republic’s military installations which were constructed during the 1990s within the framework of Greece’s Joint Defense Doctrine with Cyprus. Should this be the case, Netanyahu may overrule the recommendation of the Zemach Committee to not build any gas export infrastructure outside Israeli sovereign territory (including its EEZ) and approve the export of around 8 bcm/y of Leviathan gas for liquefaction in Vassilikos while keeping circa 7 bcm/y for pipeline exports to Israel’s neighbors including the Palestinian Authority (1 bcm/y), Jordan (2-3 bcm) and Egypt (2-3 bcm/y).<sup>98</sup> Despite their political and commercial attractiveness

<sup>97</sup> CNG = Compressed Natural Gas, PLA = Palestinian Authority

<sup>98</sup> The estimate is done on the basis of a total Israeli export quota of 380 bcm from a cumulative proven reserve of 950 bcm as it is estimated by the Tzemach Committee Final Report of August 2012. By late

especially as far as Jordan is concerned, Israel's gas exports to Egypt and Jordan may end up destabilizing the governments they were supposed to support in the first place. In the short-term though these options could prove quite profitable given the very restricted cost their export would entail for Israeli producers and the subsidized prices offered to Jordanian and Egyptian consumers by their respective governments. In the Egyptian case the cost is confined to reversing the flow of the Arish-Ashkelon pipeline, and in the Jordanian case the cost is limited to the extension of the Israeli pipeline network from Jerusalem to Amman, an extension of less than 70km.

Provided that Israel decides against the construction of an LNG or an FLNG inside its sovereign territory, the abovementioned regional pipeline options would complement Israel's main export choice (Vassilikos) while increasing the diversification of export destinations and routes for Israel. ***This proposed strategy offers Tel Aviv all the benefits of a flexible LNG strategy centered on EU soil that would allow it to tap into the more lucrative Asian and North Mediterranean markets, while spreading the risk of pipeline exports between several market destinations at minimal cost to Israel.***

### 3.3. The Greek-Israeli Pipeline Options

Although the construction of a pipeline connecting Greece, Cyprus and Israel would be, from a geopolitical point of view, the most important factor in the process of consolidating a true axis between the three non-Muslim democracies of the Eastern Mediterranean, its realization remains problematic for a plethora of reasons. A pipeline would commercially and politically interlink Greece and Israel for decades, since even an 8 bcm/y commitment on the Israeli side would account for almost 50% of Israeli exports.

The political repercussions from such a commercial relationship are more than evident, but, unfortunately for Greece the geostrategic preconditions for the materialization of such a project do not yet exist. The Interconnector Israel-Cyprus-Greece (ICG) also faces considerable technical challenges that make an accurate estimate of the project's cost extremely difficult. Moreover the geopolitical risks of constructing a pipeline, even if Israel would agree to join Greece in protecting it militarily, are very considerable in the absence of an agreement between Greece and Egypt on the delimitation of their respective Exclusive Economic Zones (EEZ).

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2013 Israeli proven reserves are slightly below this estimate at approximately 920 bcm. Around 1 bcm may also be allocated to CNG exports.



### 3.3.1 Greece as a consumer for East Med Gas

For Athens, the benefits from the emergence of Cyprus as a significant gas exporter are also very important in terms of its own energy security. If Greek natural gas demand increased to approximately 6-7 bcm by 2020, Aphrodite *per se* can comfortably cover anywhere between 25% to 50% of this consumption level thereby allowing Greece to either replace its more expensive Algerian LNG (\$12,80/Mbtu) imports or expand its LNG imports as a share of total demand thereby increasing security and flexibility. Cyprus constitutes a relatively secure and proximate source of gas at a medium estimated price of approximately \$10/MMBtu (Million British Thermal Units) compared to a cost of around \$13/MMBtu for Russian gas 2013.<sup>99</sup>

In 2010 LNG imports emanating from a long-term contract between DEPA and Algeria's Sonatrach as well as from increased spot-market imports carried out by Greek private gas and electricity consumers such as Motor Oil & Mytilineos Gas Co., accounted for 30% of final gas consumption, namely 1.095 bcm/y, the largest LNG share ever since natural gas was introduced in the Greek energy mix in 1996.<sup>100</sup> The proximity of Cyprus and the special political relationship between the two E.U. states could guarantee a steady flow of up to 1,5-2 bcm from Aphrodite within the framework of a 15-20 years long-term import agreement that could be activated as early as 2019/2020.

Such an agreement could materialize even if Aphrodite is not connected to Leviathan. Given the fact that Cypriot gas needs are estimated at 30 bcm/y for around 30 years, 70-110 bcm will be available for exports equaling on average to 4.5 bcm/y for a 20 years period. Even if only 1/3 or less of this gas goes to Greece it could make a significant impact for Greek energy security by decreasing Greek dependence on pipeline imports from Russia and the Caspian Sea, limiting vulnerability on Ukrainian and Turkish transit and increasing diversification of supply while also enhancing market liberalization that would in turn reduce prices.

Beyond drastically reducing its import dependence on non-EU gas sources, Greece also obtains an additional advantage since it would be able to limit its off-take requirements from the TAP and (on the longer term) South Stream consortia which want to utilize Greece's territory in order to transfer Russian, Azeri and Central Asian gas to Italy and via Italy to Central and Western Europe.

If Greece is able to secure from the Eastern Med a large component of its demand by 2020, it would be able to consolidate its position vis-à-vis the two abovementioned consortia and evolve into a truly competitive and transparent gas hub for South Eastern Europe. Such a development will also bolster its role as the most important European transit state in the EU's Southern Gas Corridor strategy even after Shah Deniz 2 is fully developed.

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<sup>99</sup> Market sources from buyers of LNG in the East Med.

<sup>100</sup> Greece consumed 3.65 cm in 2010, significantly lower from an all time consumption peak of 4 bcm in 2008, but the share of LNG was never higher in both absolute and relative terms in 2010. Dr. George Paparsenos, CEO DESFA S.A, *Greek Natural Gas System: Developments and Prospects*, presentation to the 6<sup>th</sup> IENE South East Europe Energy Dialogue, Thessaloniki, (June 2012), pp.8-9. For the 2020 projection of 7 bcm/y based on data by DEPA, *ibid*, p.13.

Cypriot gas would also offer the Greek natural gas security system a far greater element of flexibility in times of crises like the one the country confronted in January 2009 when all pipeline gas imports from Russia and Turkey were stopped. Furthermore it should be added that Cyprus' success would be a guideline and a motivation for Greece since it would strengthen the impetus for further exploration in both Greek and Cypriot seas, which are -from a hydrocarbon perspective- the less explored in the entire European Union. This is particularly important for Greece's attempts to restart after almost thirteen years of self-paralysis its domestic oil & gas upstream industry.

### 3.3.2 Gas Transit to Southeast Europe and Beyond: Pipeline Alternatives

Apart from securing Greece's own long-term gas needs, Tel Aviv and Nicosia can also benefit greatly from the potential emergence of Greece as a transit state for Cypriot and Israeli gas exports to Europe, although one should expect that 35%-50% of their exports would be directed to Asian markets. This would be even more likely if Woodside completes its purchase of a 30% share in Leviathan.

There are two alternative scenarios (LNG Regasification and/or Pipelines) for the materialization of such a prospect neither of which is necessarily dependent on the realization of the Noble/Delek plan regarding the construction of the Vassilikos LNG. Greece is likely to pursue both alternatives depending on the availability of Israeli and Cypriot Gas resources even if parts of these resources are not liquefied in Cyprus.

Athens should do its utmost to encourage the realization of the Vassilikos LNG investment for - above all- geostrategic reasons, but in case Israel, Noble & Delek choose to construct the LNG terminal either in Israel proper or on the spot through the construction of a Floating LNG facility (FLNG), Greece should not forsake the opportunity of facilitating the transit of Israeli gas via its own NGTS (National Gas Transportation System).

Apart from the various LNG options (Israel, Cyprus, FLNG) a pipeline connection between Cyprus and Greece could also become viable in the longer-term if additional gas resources are discovered in the Israeli and/or Cypriot EEZ. Such a large scale (30-40 bcm/y) pipeline export system constructed for a 1,000km across the seabed of the Eastern Mediterranean from Israel to Crete to mainland Greece would also require the *commercial availability* of technology capable of laying pipes in depths close to 3.000m.

#### 3.3.2.1: The Southeast European Gas Interconnectors (~2014-2018)

The slow-pace that characterized the development of the EU's Southern Gas Corridor strategy, has induced the countries of Southeast Europe to look since 2008 for smaller, more affordable and much more readily available diversification alternatives that combine the construction of interconnector pipelines with LNG terminals into *one* virtual pipeline system. This system which is based on the construction of four 3-5 bcm/y capacity pipelines, would link Hungary with Greece via Bulgaria and Romania by providing all intermediary markets with the option of Qatari/Arab LNG or Caspian pipeline gas imports via the Greek-Turkish pipeline and the future (Aegean LNG in Northern Greece) as well as the present (Revythousa in Greece) LNG terminals in the wider Balkan region.

Such a pipeline system would also allow for the rapid reverse-flow of gas in case of another major gas supply/transit crisis like the January 2009 Russian-Ukrainian show-down, which galvanized most of the region's governments into action. The 2009 European Energy Recovery Programme (EERP) constitutes the financial underpinning of this coordinated EU effort that would radically enhance the region's energy security by operating both independent of TAP and in combination with the Trans Adriatic Pipeline, especially as far as the export to Bulgaria is concerned.

The EERP covers 1/3 of the total investment cost for the four abovementioned interconnectors that aspire to integrate the gas markets of Greece-Bulgaria-Romania and Hungary.<sup>101</sup> Since all these interconnectors are planned primarily as a means of diversifying gas imports away from Russia they could also prove to be more beneficial to the Balkan states involved, especially those who participated in the now defunct Nabucco West project.

From their participation in the original Nabucco plan, Hungary, Bulgaria and Romania were expected to secure 1 to 1, 5 bcm/y at an individual cost of €1, 28 billion if the project's cost is estimated at its lowest possible scenario of EUR 7.9 billion for the original Nabucco project. Even if Nabucco's transformation to Nabucco West in June 2012 would have limited this cost estimate by 50% the cost for Bulgaria, Romania and Hungary would remain too high compared to their expected rewards.

Greece also expected to secure another 1.5-2 bcm/y from the ITGI project at a total investment cost of €1, 1-€1, 3 billion. On the other hand all three states could achieve their fundamental gas security interests by constructing a network of interconnectors with a minimum reverse-flow capacity of 3 bcm/y at a total cost of €320-€400 million of which 30% had or will (in the case of IGB) will be paid by the EERP. The privatization of DEPA and the removal of ITGI from the consideration of Shah Deniz 2 gas in February 2012 have radically changed the strategic calculus for Greece that until late 2012 was still reluctantly shifting towards TAP. For the Eastern Balkans, the Greece-Bulgaria Gas Interconnector or IGB that was initially described in an energy cooperation MoU signed between the two governments in April 2009 constitutes the first and most crucial link of this virtual chain of gas pipelines connecting the markets of all E.U. member-states in South-eastern Europe.

IGB, which would run for around 20-25 km in Greece, would connect the north-western city of Komotini to Bulgaria's central city of Stara Zagora, has been earmarked €45 million by the EERP and could be completed within 18-24 months from the initiation of its construction that was expected to commence according to Bulgaria's Prime Minister Boyko Borisov in March 2012.<sup>102</sup> The pipeline will have an initial throughput capacity of 3 bcm/y later to be extended to 5 bcm. From Bulgaria this virtual chain will extend to Romania and Hungary through the construction of two much cheaper, equal capacity pipelines. The first one the Interconnector Bulgaria-Romania or IBR will be less than 15km long, crossing the river Danube from Russe in Bulgaria to Giurgiu in

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<sup>101</sup> For a detailed list of the EC funded projects under the EERP, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/231>.

<sup>102</sup> Leonidas Liamis, "IGB Gas Pipeline Advances", *Imerisia*, 16/12/2011. IGB's JVC was established in March 2010.

Romania with the purpose of linking the two national gas grids at an estimated cost of €25mn.<sup>103</sup> The Bulgarian-Romanian pipeline will have an initial throughput capacity of up to 2 bcm/y but could be subsequently upgraded in line with expansions in IGB's capacity. The last part of the chain is the Interconnector Romania-Hungary (IRH) pipeline which was commissioned in October 2010 and runs 109km from Arad in Romania to Szeged in Hungary. The pipeline had been allocated a €30mn grant under the EEP scheme and has a final transportation capacity of 4.5-5 bcm/y.<sup>104</sup>

All three interconnectors will be built with reverse-flow capacity so as to enable the effective and timely delivery of gas in case of supply disruptions. Since the Southeast European interconnectors system will be completed by 2017, if the incremental rise in the region's gas consumption is not covered by Qatari LNG exports, then Cypriot and/or Israeli LNG from Leviathan could offer an alternative to Azerbaijan's Shah Deniz 2 gas. ***By the end of this decade East Med Gas can deliver for the countries of Southeast Europe the energy security benefits that what Nabucco failed to deliver.*** Parallel to its key role for the materialization of the TAP project, Greece can also offer its north-eastern European neighbours the transit security Nabucco failed to deliver as long as it completes IGB on time. In early 2014 the only missing parts of the puzzle are Bulgaria's interconnectors with Romania (IBR) and Greece (IGB), although IBR is likely to be completed in 2014.

The selection of TAP over Nabucco in June 2013 facilitates the completion of Greece's Eastern Balkans pipeline strategy since it creates a major impetus for Bulgaria to complete IGB by 2016, *three years after its original timetable*. As of early 2014 work on IGB has not even started yet but DEPA believes that the pipeline would be commissioned within 2016.<sup>105</sup>

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<sup>103</sup> "Bulgaria-Romania Gas Interconnector to Launch in Early 2013", SeeNews, 12/10/2011. Construction on the IBR begun on 16 August 2012. [http://bnr.bg/sites/en/Economy/Pages/ConstructionofBulgaria-Romania\\_gas\\_connection\\_kicks\\_tarts.aspx](http://bnr.bg/sites/en/Economy/Pages/ConstructionofBulgaria-Romania_gas_connection_kicks_tarts.aspx)

<sup>104</sup> Theodore Tsakiris, "Balkan Gas Interconnectors Progress As Borissov Grows Wary of Nabucco", Euractiv, 10/12/2010, [http://www.euractiv.com/energy/balkan-gas-interconnectors\\_-\\_progress-borissov-grows-wary-nabucco-analysis-500500](http://www.euractiv.com/energy/balkan-gas-interconnectors_-_progress-borissov-grows-wary-nabucco-analysis-500500)

<sup>105</sup> "Bulgaria's Ambition is to Have Gas Interconnector with Serbia in 2017", Independent Balkan News Agency, <http://www.balkan.eu.com/bulgarias-ambition-gas-interconnector-serbia-2017> & Dr. Konstantinos Karayannakos, Division Head International Projects & Gas Supply, DEPA, *Gas Competition in SEE: New Regional Infrastructure – A Factor for Growth*, paper presented at 1<sup>st</sup> Athens Energy Forum organized by the International Herald Tribune, in February 2013, pp.10-11.

### Potential Sources of non-Russian Gas for S.E. European Markets to 2020

Source	Volume	Transport	Availability	Entry Point to S.E.E.
Qatar	5-10 bcm/y	LNG	2014	Revythousa Regasification Terminal in Attica and IGB
Shah Deniz	10 bcm/y	TAP	2019/2020	Turkish-Greek border and IGB
Israel	3-5 bcm/y	LNG	2019/2020	Revythousa Regasification Terminal in Attica and IGB
Cyprus	3-5 bcm/y	LNG	2019/2020	Revythousa Regasification Terminal in Attica and IGB

#### 3.3.2.2: The Israeli-Cyprus-Greece Gas Pipeline (circa 2020)

The second alternative for the consolidation of a Greek-Israeli energy partnership is a far more ambitious and (geo)-politically far-reaching for a series of reasons. The concept of a Trans-Mediterranean gas pipeline or an IICG (Interconnector Israel-Cyprus-Greece) that would link Leviathan resources with the Greek natural gas system somewhere in Central Peloponnese is a very challenging prospect for technical as well as geostrategic reasons that seem to discourage its realization at least in the short-term.

Yet it should be noted that as the technology of deep sea pipeline-laying matures and more exports become available, an IICG pipeline may become more attractive over the long-term. The fact that the abovementioned pipeline project was initially proposed (August 2010) and aggressively promoted (April 2011) by none other than the Prime Minister of Israel Benjamin Netanyahu, merits a detailed examination even though the Israeli Ministry of Infrastructure and Israel's Natural Gas Authority appear to have tempered Mr. Netanyahu's initial enthusiasm.<sup>106</sup>

It should be nevertheless stressed that as late as April 2011 talks between Greek and Israeli energy officials appeared to have been making considerable progress in the direction of promoting the Trans-Mediterranean pipeline regardless of the abovementioned Vassilikos LNG proposal which was presented to the Cypriot government by the Delek Group in January 2011.<sup>107</sup> As it has been already mentioned the IICG has been included in the EU's list of Projects of Common Interest (PCI) for the 2014-2020 period.

<sup>106</sup> Netanyahu appears to have caught his Greek counterpart George Papandreou off-guard when he proposed the construction of the Trans-Mediterranean pipeline during his first visit to Athens in late August 2010. The Israeli Premier also appears according to the *Haaretz* daily to have proposed the pipeline project without first consulting with Uzi Landau his own National Infrastructure Minister and the Ministry's bureaucracy. Avi Bar Eli, "Netanyahu Offers Natural Gas to Greece", *Haaretz*, 30/08/2010. See also Amiram Barkat, "Israel Proposes Undersea Gas Pipeline to Europe", *Globes*, 30/08/2010

<sup>107</sup> Amiram Barkat, "Talks Progress on Gas Pipeline to Greece", *Globes*, 12/04/2011.

This means that it is likely to receive considerable financial assistance that would make it possible for the interested parties to complete a comprehensive feasibility study that would include the detailed analysis of alternative routes. Despite the nearly tectonic political changes in Greece the policy of supporting the pipeline as the most important option remained unchanged. Despite the fact that neither Cyprus nor Israel accepted to make any particular reference to the IICG in the trilateral MoU signed in Nicosia in August 2013, Athens continued to lobby for the pipeline as if it were the only viable option on the negotiating table.

During the visit of Prime Minister Samaras and Deputy Prime Minister Venizelos in Tel Aviv in October 2013 the IICG was presented as the most important common energy project. The joint statement signed between Yannis Maniatis & Silvan Shalom during the joint meeting of the Greek and Israeli cabinet in Jerusalem on 8 October 2013 did not refer to the IICG by name but the statements of Prime Minister Samaras and Energy Minister Maniatis created the erroneous impression that the pipeline was the only export project worthy of serious Greek diplomatic support.

The perception of the progress made on the IICG between Prime Ministers Netanyahu and Samaras was so strong that it appears to have alarmed President Anastasiades of Cyprus who was reportedly unaware of the Israeli-Greek pipeline project.<sup>108</sup> According to press reports of the meeting Netanyahu, was in full agreement with the IICG project and discussed the ways in which it could secure EU financial support.<sup>109</sup>

In reality Samaras' statements should not have surprised anyone. During his joint statements with the Israeli Premier, Samaras always mentioned Greece and Cyprus together, as a common bridge that could facilitate the export of Israeli gas to Europe without singling out the IICG over the Vassilikos LNG.<sup>110</sup> More importantly neither Netanyahu nor any other senior Israeli official is likely to commit major volumes -*equalling at least 8 bcm/y or 50% of Israel's current export capacity*- to a project that faces the following *three* major challenges:

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<sup>108</sup> “Coordination Needed on Energy [between Cyprus and Greece]”, (in Greek) *Kathimerini*, 12/10/2013, [http://news.kathimerini.gr/4Dcgi/4Dcgi/\\_w\\_articles\\_columns\\_2\\_12/10/2013\\_536584](http://news.kathimerini.gr/4Dcgi/4Dcgi/_w_articles_columns_2_12/10/2013_536584).

<sup>109</sup> “Samaras & Netanyahu Are Determined to Proceed Quickly with the Pipeline”, *Ta Nea*, 08/10/2013, (In Greek), <http://www.tanea.gr/news/politics/article/5046195/apofasismenoi-na-proxwrhsoyn-amesa-ton-agwgo>, “The Greek-Israeli Agenda for Natural Gas”, (in Greek) *Naftermporiki*, 09/10/2013 & “Samaras: A New Strategic Axis with Israel”, (in Greek) *Ethnos*, 09/10/2013, <http://www.ethnos.gr/article.asp?catid=22767&subid=2&pubid=63900181>.

<sup>110</sup> For a video of the statements of the Greek Premier in the welcoming ceremony organized by Premier Netanyahu on 08/10/2013, see the website of the Israeli Embassy in Athens, <http://embassies.gov.il/athens/NewsAndEvents/Pages/joint-statements-Jerusalem-Samaras-Netanyahu2013.aspx> (accessed on 04/01/2014).



**a) Depth/Distance:** Such a pipeline, whose length is estimated at approximately 1.150km, would have to cross through areas that lie -especially to the south of Crete- at depths around 3.000 meters.<sup>111</sup> At these depths the pressure an underwater pipeline would face is enormous to the extent of making its operability a very difficult task from a technical point of view. To get a better understanding of just how challenging it would be to construct even an 8 bcm/y capacity pipeline at depths close to 3.000m, we need to understand that by the end of 2013 the deepest pipeline ever constructed was the Blue Stream connecting Turkey and Russia across the Black Sea at a maximum depth of 2.150m.

France's *Technip* and Italy's *Saipem*, a subsidiary of ENI, are two of a handful of engineering companies in the world who have the capacity to construct the IICG. In particular *Saipem* has played a leading role in the construction of offshore pipelines in Europe. It constructed the Blue Stream (2005) and the Nord Stream (2011, 2013) pipelines and commissioned in September 2012 the ultra-deep pipe-laying vessel *Castorone* that is able to lay pipelines at depths close to 3.000m. *Castorone* is currently at work in the U.S. Gulf of Mexico where it is laying its first 219-km pipeline connecting Chevron's Jack and Saint Malo fields with New Orleans at a depth of 2.140m<sup>112</sup> More importantly *Technip's Deep Blue* vessel will begin work during the second half of 2014 on the world's deepest pipeline that will be constructed for Shell's Stones gas field at a depth of 2.900m, close to the required operational depth of the IICG.<sup>113</sup>

What all this means for the Greek-Israeli project is that the technology which will be needed to construct a pipeline at depths close to 3.000m *is about* to be tested in real life conditions for *the first time*. More importantly the list of the companies who can purchase this type of unique services is confined to the *super-majors* of the global oil & gas industry not a medium-small, by European standards, gas trading company that is in the process of being privatized (DEPA-Greece) or Israel's small, by global standards, upstream developers. If the Greek-Israeli Trans-Med is constructed within the short-term timeframe (2019) proposed by its promoters, and most notably DEPA,<sup>114</sup> it would constitute a world-class feat of engineering with very few precedents. That is a project whose cost is extremely difficult to accurately assess especially in the absence of a comprehensive feasibility study.

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<sup>111</sup> For an accurate estimate of the depth to the south of Crete that reach close to 3.000 meters and in some areas beyond this depth, see Euro Mediterranean Energy Market Integration Project MED-EMIP, MEDRING Update Volume IV: Visualizing the Mediterranean Sea Basin for Electric Power Corridors, (Cairo: April 2010), p.10. The study was prepared for an electricity interconnection, but the bathymetric data are applicable to gas pipelines as well.

<sup>112</sup> For the Jack & Saint Malo fields, <http://www.offshore-technology.com/projects/jackstmalodeepwaterp> (accessed on 05/01/2014). For *Castorone*, <http://www.ship-technology.com/projects/saipem-castorone-pipe-laying-vessel> (accessed on 06/01/2014).

<sup>113</sup> <http://www.technip.com/en/press/technip-lay-world%E2%80%99s-deepest-gas-pipeline-shell-gulf-mexico>, 23/08/2013, (accessed on 06/01/2014)

<sup>114</sup> DEPA thinks that the construction of the IICG can begin by 2016-2017 so as to deliver gas to S.E. Europe by 2019. Karayannakos, *ibid*, pp.8-9.

***b) Commitment of Gas Resources:*** The next equally important challenge a Greek-Israeli pipeline will have to face relates to the availability of the long-term supply of Israeli and Cypriot gas. What needs to be made absolutely clear is that the existing discoveries in Cyprus and Israel cannot commercially support the Vassilikos LNG terminal *and* the IICG. Exports from Leviathan do not suffice to support *both* options of direct “Hellenic” interest unless Israel (i) decides to commit 50% of its gas exports to Europe via Greece and the IICG, (ii) does not export any gas to its Near East neighbours, namely Egypt and Jordan, and (iii) utilizes the Vassilikos LNG *exclusively* for exporting gas to Asian markets.

Such a scenario requires that Israel places the totality of its gas exports in Greek hands. Even though this would be the optimal case for Athens and Nicosia it is also quite unrealistic from the Israeli point of view. ***Unless and until new major gas discoveries are made and verified in Cyprus and/or Israel, (and the soonest something like this will happen is 2015-2016), the IICG and the Vassilikos LNG terminal are mutually exclusive from the Israeli point of view, unless Tel Aviv decides not to export any of its gas to its immediate neighbours.***

***c) Geopolitical Risk:*** In addition to the abovementioned technical and commercial challenges any IICG will have to face off Turkish claims over the Cypriot and Greek Exclusive Economic Zones (EEZ) in the Eastern Mediterranean. It is debatable whether Israeli military assistance would be in the offing should Turkey decide to deploy its naval forces in an attempt to stop the construction of the IICG. There is only one scenario under which Turkish military power could be diplomatically neutralized.

This scenario relates to the demarcation of the Greek EEZ with both Cyprus and Egypt and the approval of Egypt for the transit of the IICG via its EEZ. Despite the entrenched enmity between the generals in Cairo and the Islamic government of Mr. Erdogan, there is little chance for this scenario to materialize at least in the medium term. Without a tripartite agreement between Greece, Cyprus and Egypt on their respective EEZs the construction of IICG is almost unattainable from a diplomatic point of view. That is perhaps why Prime Minister Samaras in a recent interview in *Kathimerini* appeared less enthusiastic with the IICG concept noting that “the pipeline is one of the many ideas currently discussed. Yet the [energy] cooperation between the countries of the region can be done in many different ways of transportation”. <sup>115</sup>

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<sup>115</sup> “The Natural Gas Deposits, the underwater wealth and the EEZ”, interview of Prime Minister Samaras with Alexis Papahelas, *Kathimerini*, (Cyprus Edition), 15/12/2013, p.18.

#### 4. Conclusions - Policy Recommendations

- Despite the perception that Turkey and Israel were in process of re-normalizing their relationship within 2013, Ankara and Tel Aviv remain engaged in a Cold-War type confrontation throughout the contemporary Middle East. As long as Turkey would continue to oppose the utilization of its territory as a platform for a pre-emptive strike against Iranian nuclear sites and to follow its Pro-Islamist foreign policy in the Middle East, there is no real ground for a Turkish-Israeli rapprochement that would reverse the existing hostility between the region's principal U.S. allies and force Israel to make strategic concessions to Turkey.
- In effect, following the fall of Mr. Morsi in Egypt the hostility between Israeli and Turkey has further increased and is arguably greater than any point after the Mavi Marmara incident. Even if Turkey were to make an impressive about-face in its policy towards Israel, the benefits to Israel are not likely to be so important so as to force major changes in its policy vis-à-vis Greece and Cyprus. Finally there is nothing Turkey could offer to Israel in a post-Assad Syrian regime that Israel cannot achieve by itself.
- Although Greek-Israeli relations markedly improved over the last three years, the so-called "Strategic Alliance" remains a chimera, partly because the most tangible and significant pillar on which such an Alliance could be based -energy cooperation- is still immature. What would best describe the current status of Greek-Israeli relations is an alignment of interests in several important areas that still lacks the core *raison d'être* for becoming an alliance.
- Energy cooperation that would alleviate EU gas dependence on Russian imports and (prospectively) Turkish transit could constitute such a core interest not only for Israel, Cyprus and Greece but for several leading EU member-states with important interests in the Eastern Mediterranean, such as Italy and more importantly France. Energy cooperation illustrated by the liquefaction -before 2020- of Israeli gas in Cyprus and the more long-term - after 2020- construction of gas and electricity lines to Greece can constitute this missing linchpin and turn the alignment into an alliance.
- This is not where we are right now though, and if Israel decides to not use Cyprus as a conduit for part of its gas exports to Europe the alliance may not emerge at all, unless Turkey decides to use its military power offensively in ways that would necessitate a closer military cooperation between the three non-Islamic democracies of the Eastern Mediterranean.
- From a geopolitical point of view the "non-consummation" of this energy "flirtation" into a solid, marketable and strategically "underwritten" project, will have a detrimental impact on the additional progress of Greek-Israeli and Cypriot-Israeli relations, although the negative effect between Nicosia and Tel Aviv will be far less damaging given the sharing of Aphrodite between the two states and its development by Noble Energy and the Delek Group.

- Although the three states have diverging opinions on which export route would constitute the main export option for its gas resources, they all seem to agree that a European market destination which would at least partly cross via Greece is among their top priorities, despite the fact that for Cyprus and Israel the preferred short-term evacuation option is more likely to be via an LNG terminal rather than a pipeline. The recent results of the appraisal well in Aphrodite (September 2013) have made Cyprus dependent on Israeli decisions regarding the liquefaction of gas from Leviathan in Vassilikos.
- Aphrodite simply has insufficient reserves to justify for the construction of even one liquefaction train. This may change by the end of 2014 if new exploratory drilling by Noble in Block 12 reveals the existence of more gas in prospective targets other than Aphrodite, otherwise Cyprus may have to wait until 2016 for new potential discoveries in the blocks it tendered to ENI/Kogas and Total in early 2013.
- Provided that Israel decides against the construction of an LNG or an FLNG inside its sovereign territory, the selection of Vassilikos as the main export choice for Leviathan gas increases significantly as long as Israel decides to diversify its export portfolio by tapping into the Egyptian and Jordanian markets.
- This proposed strategy that divides Israel's exports between Cyprus, Jordan and Egypt offers Tel Aviv all the benefits of a flexible LNG strategy centered on EU soil that would allow it to export to the more lucrative Asian and North Mediterranean markets, while spreading the risk of pipeline exports between several market destinations at minimal cost compared to a pipeline commitment to Turkey.
- Although the construction of a pipeline connecting Greece, Cyprus and Israel would be, from a geopolitical point of view, the most important factor in the process of consolidating a true axis between the three non-Muslim democracies of the Eastern Mediterranean, its realization remains problematic for a plethora of reasons. A pipeline would commercially and politically interlink Greece and Israel for decades, since even an 8 bcm/y commitment on the Israeli side would account for almost 50% of Israeli exports.
- The political repercussions from such a commercial relationship are more than evident, but, unfortunately for Greece the geostrategic preconditions for the materialization of such a project do not yet exist. The Interconnector Israel-Cyprus-Greece (IICG) also faces considerable technical challenges that make an accurate estimate of the project's cost extremely difficult.
- Moreover the geopolitical risks of constructing a pipeline, even if Israel would agree to join Greece in protecting it militarily, are very considerable in the absence of an agreement between Greece and Egypt on the delimitation of their respective Exclusive Economic Zone (EEZ).

- The existing reserves offshore Cyprus and Israel cannot commercially support the Vassilikos LNG terminal *and* the IICG. Exports from Leviathan do not suffice to support *both* options of direct “Hellenic” interest unless Israel (i) decides to commit 50% of its gas exports to Europe via Greece and the IICG, (ii) does not export any gas to its Near East neighbors, namely Egypt and Jordan, and (iii) utilizes the Vassilikos LNG *exclusively* for exporting gas to Asian markets. Such a scenario requires that Israel places the totality of its gas exports in Greek hands. Even though this would be the optimal case for Athens and Nicosia it is also quite unrealistic from the Israeli point of view.
- That is why Greece and Cyprus should better coordinate their foreign energy policies and prioritize on the construction of a two-train LNG terminal in Vassilikos with Israeli assistance. The Vassilikos LNG terminal should become Priority # 1 for Greece’s energy diplomacy focusing on the need to convince Israel for the exporting of at least 8 bcm/y via Cyprus. If Israel is convinced, it is still possible to expect exports from Vassilikos before the end of this decade.
- Greece will benefit from this development directly both as a consumer of Cypriot/Israeli LNG as well as a transiting state for East Med Gas to Southeastern Europe once IGB becomes operational in 2016. Priority #2 should be the construction of the Euro-Asian Electricity interconnect and Priority # 3 the IICG which should be seriously considered as a post-2020 export option in case more gas is discovered in Cyprus or Israel by the end of 2016.

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ELIAMEP can trace its origins to informal meetings in the mid-1980s among academics, diplomats, military officials and journalists. That group's goal was to introduce an independent and scholarly approach to policy options regarding European integration, transatlantic relations as well as the Mediterranean, South-eastern Europe, the Black Sea and other regions of particular interest to Greece. In April 1988 these meetings were institutionalized and became the Hellenic Foundation for Defence and Foreign Policy (Greek acronym, ELIAMEP).

Since its official establishment, ELIAMEP has experienced significant growth and has attracted the attention of scholars, government officials and corporate entities in Greece and abroad. As developments in the wider region moved rapidly, the focus of the institute was enlarged to include more policy-relevant research projects assisting post-communist democracies in the creation of a civil society, providing training and networking services and acting as a contact point to public and private sector bodies on politico-economic and security matters, as well as on European affairs. This was reflected in the 1993 amendment of ELIAMEP's statutes to include a change of name (without abandoning its original acronym), which would illustrate the Foundation's wider scope of concerns and activities: Hellenic Foundation for European and Foreign Policy. The message is clear: in the context of the EU and shared sovereignties, a distinction needs to be drawn between European policy and traditional foreign policy.

Over the years, ELIAMEP expanded its activities to include topics such as migration, human rights, civic participation and social inclusion, climate change and its impact on human security; good governance and security sector reform, and energy security, with a view to having a greater impact on the public through the dissemination of information and of policy proposals, the organisation of training and conflict management seminars and international conferences, the publication of books, journals and monographs. ELIAMEP is frequently visited by journalists from various parts of the world requesting the Foundation's help for information, analysis and interviews. It is now generally recognised as one of the leading think-tanks in the region.

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