

SHAPING CYPRUS' ENERGY FUTURE: NAVIGATING THE COMPLEX INTERPLAY OF GEOPOLITICS AND GEOECONOMICS

Panayiotis Tilliros

Abstract

This article delves into the complex interplay of geopolitics and geoeconomics, particularly in the context of recent or ongoing conflicts and energy developments, and their profound impact on Cyprus' energy future. It examines the implications of the wars in Ukraine, Nagorno-Karabakh, and Gaza, the evolving international relations landscape, and Turkey's revisionist ambitions and its energy goals. Cyprus's gas discoveries, and the optimal choice of liquefied natural gas (LNG) for their exploitation take centre stage. The paper also explores the proposed IMEC geostrategic arc and the promising opportunity it presents for Cyprus to fast-track the development of its gas resources. In conclusion, the article highlights key takeaways in this ever-evolving global landscape and the potential it holds currently for Cyprus to play a pivotal role in the East Mediterranean Energy Map.

Introduction: Three Wars with Global Implications

The world is currently witnessing a tumultuous period marked by three significant wars that have far-reaching geopolitical, geoeconomic and energy implications. The Russo-Ukrainian war, the Nagorno-Karabakh conflict, and the Israeli-Palestinian (Hamas) war have shaken the global geopolitical landscape. These conflicts underscore a shifting geopolitical scene, challenging the established world order and affecting economic stability, energy trade, and the energy security of nations. Furthermore, they have highlighted the rapidly changing dynamics of international relations, moving from a monopolar world, dominated by the United States, to a multipolar/tripolar one, with the superpowers, the United States,

Panayiotis Tilliros is an Economist, International Relations, and Geopolitical Analyst, and Expert in Economic, Financial and Energy Security Issues. He is a Research Associate at the Cyprus Center for European and International Affairs, which is affiliated with the University of Nicosia. His research interests and expertise focus on Economic and Financial Issues, Political Economy, International Political Economy, International Relations and Geopolitics, Energy Geopolitics, Energy Security and Energy Economics.

Russia, and China engaged in intensified competition. At the same time, aspiring quasi-hegemony such as Turkey, Iran, and Israel, are actively seeking to assert their influence in the Middle East, the Eastern Mediterranean and elsewhere. Cyprus, strategically positioned in the East Mediterranean, finds itself at the center of this global dynamic.

The Heartland vs. Rimland Theory: The Geopolitical Perspective

In this transformed world order, the Heartland-Rimland theory, originally proposed by Mackinder and later expanded upon by Spykman, is resurfacing. This theory is playing out among superpowers, notably the United States, Russia, and China. The West, represented by the USA, NATO, and the EU (Rimland), is locked in a battle with the East, comprising Russia and China (Heartland), vying for dominance and the control of the global economy, geoeconomic networks, energy resources, including oil and natural gas pipelines and global trade routes.

In this regard, the above conflagrations mark a new cold war and a reconfiguration of world power in the post-World War II era. These conflicts are fueled by the intersection of geopolitics and geoeconomics, which play a pivotal role in shaping the future of nations but are also marked by strong civilizational and religious dimensions, involving Christianity, Islam, and Judaism. Indeed, these rivalries can be interpreted as a paradigm shift or a change in assumptions, refuting the "End of History" as predicted by Francis Fukuyama with the collapse of Russian communism, and the onset of the "Clash of Civilizations" theorized by Samuel Huntington.

Geoeconomics: War Consequences

The wars have been exerting short-term, medium-term, and long-term effects on global politics and the world economy. Both the West and Russia are leveraging energy as a weapon, contributing to price volatility. In determining oil and gas prices, supply and demand dynamics, speculation and geopolitics are all playing significant roles. Geopolitical tensions have rendered market mechanisms less effective, leading at times to price spikes, supply chain disruptions, and shortages in essential products. The negative consequences have included lower energy security, generally higher energy prices, slower economic growth, high inflation, and declining living standards, especially for European citizens.

Nagorno-Karabakh: A Regional Power Struggle

Apart from its ethnic roots, the conflict in Nagorno-Karabakh involved geopolitical implications on energy dynamics: It was driven by the desire to eliminate the Armenian threat to the energy corridor between Azerbaijan and Georgia, intensifying the power and geoeconomic competition in the Caucasus and Central Asia.

Additionally, the West aims to diminish Russia's dominance in the energy market by increasing energy supplies from the Caspian Sea. The European Union (EU) seeks to establish regional footholds and looks to Azerbaijan and Turkmenistan as crucial oil and gas suppliers, aiming to eliminate any reliance on Russian energy supplies and to diversify its energy sources. Azerbaijan already exports gas to Europe via the TANAP and TAP pipelines and there are plans to double the flows. Turkmenistan emerges as a potential energy supplier, including blue hydrogen and the planned Trans-Caspian Gas Pipeline has gained prominence in European energy strategies, as an EU project of common interest.

Israel's support for Azerbaijan to counter Iran highlight the complex web of alliances and energy interests in the region. Furthermore, Pan-Turkism and the ambitions of Turkey to control energy routes in the region and replace Russian oil and gas supplies to Europe were pivotal elements in this war. Turkey wishes to become a transit and trading hub, using gas from Azerbaijan, Turkmenistan, Iran, and even Russia. Turkey already imports Russian gas via the Turkish Stream and the Blue Stream pipelines. There is a paradox in the EU's policy of sanctions against cheaper pipelined Russian gas, while importing more expensive Russian LNG, and the possibility of bypassing Russian energy exports via Turkey.

Israel vs. Palestine: Historical Tensions and an Energy Security Perspective

After the Jewish revolts, the second temple was destroyed by the Romans and the Jews were dispersed. What is Nakba or "catastrophe" for the Arabs, referring to the mass displacement and dispossession of Palestinians in the 1948 war, is a miraculous return to the "promised land" for the Israelis, pertaining to the creation of an independent Jewish state. The Al-Aqsa Mosque stands where Solomon's Temple used to be, and the Temple mount is sacred to both Muslims and Jews.

The historical animosity between Israel and Palestine, deeply rooted in religious and territorial disputes, also impacts the region's energy security. The war has led to the closure of the Tamar gas field, emphasizing the importance of Cyprus as a potential geostrategic and energy partner for Israel. This situation underlines the significance of Cyprus' gas resources in enhancing the energy security of both

nations, including the Euro-Asian electricity interconnector, and the need for a joint infrastructure for gas transport.

Israel's equivocation regarding energy planning in the East Med and the Levant has not served its best interests, nor those of the EU, which seeks an alternative energy corridor for its energy security, nor those of its staunch ally, the United States, which seeks to contain the Russian bear and the Chinese dragon. Following the Mavi Marmara incident of 2010, Israel has been attempting a rapprochement with Turkey in recent years. The clear stance of Turkey in the ongoing war in Gaza has proven what has always been a fact: that Turkey would not sacrifice its aspiration to lead the "Islamic world" and the estimated 1.8 billion Muslims, for the sake of Israel. Any Israeli illusions must have been dispelled.

Turkish Revisionism and Energy Goals

Turkey believes itself to be a Eurasiatic power and aims to join the superpower league and acquire nuclear weapons. Its successes in the economic field and in developing a domestic military industry are indisputable. Turkey's revisionist policies in the Aegean and Eastern Mediterranean, expressed through its "Blue Motherland / Mavi Vatan" policy and gunboat diplomacy, violating the Cyprus Exclusive Economic Zone (EEZ) since 2018, pose an existential threat for Hellenism. Greece's refusal to proceed to a delineation of its EEZ with Cyprus, based on UNCLOS, has left a vacuum, exploited by Turkey through the illegal Turkish-Libyan Memorandum, grabbing Greek EEZ. As Turkey has been striving to snatch Cypriot energy resources, the current geopolitical developments have opened a window of opportunity for Cyprus.

Cyprus Gas Discoveries and the Optimal Development Choice

Cyprus has made significant gas discoveries in its EEZ since 2011, necessitating a fast-track development strategy to redress the extraordinary delay in monetizing them, particularly the mature Aphrodite field.

The East Med pipeline has never been a viable project technically, financially, or geopolitically, nor in Cyprus's interests. It was always a questionable proposition. A pipeline to Turkey could only have been justified if Turkey had accepted a fair solution to the Cyprus Problem without troops and guarantees. Such a pipeline would complete Turkish suzerainty and hegemony over Cyprus, but misguided politics and naive perceptions of Turkish objectives contributed to the harmful delay despite Turkish intransigence.

Existing and future Cyprus discoveries, including Aphrodite and possibly small Israeli fields, should be directed to Cyprus, not Egypt. Negotiations with Chevron over Aphrodite's development should focus on bringing gas to Cyprus and not whether a Floating Production Unit (FPU) should be used or not for directing the gas to Egypt. If an unpropitious start is made with Aphrodite, this is most likely to continue. ENI with its partner TotalEnergies shall also insist to direct the gas in Calypso-1, Cronos-1, and Zeus-1 in Block 6 to the Zohr infrastructure and ExxonMobil may come to an agreement to do the same with the Glaucus-1 reservoir in Block 10.

If Cyprus gas is tied back to existing infrastructures, and not Cypriot ones the benefits for the Cyprus economy will be minimal, almost exclusively monetary at a lower level and not cross-sectoral. Hence, it is crucial to overcome constraints imposed by the International Oil Companies (IOCs), which seek profit maximization and investment risk minimization. Cyprus must prioritize its own national interests and insist on local infrastructure development, even if it means sacrificing some share stipulated in the Production Sharing Agreements (PSA). In the long-term the benefits for the Cyprus economy will over-compensate the capital cost of local infrastructures. The more extensive the energy infrastructure in Cyprus, the greater shall be the value added to the GDP.

Addressing the interests of major energy players shall not be an easy task for the Cyprus Minister of Energy, as it will require certain concessions. However, it is essential to achieve collaboration among them to bring discoveries to a local onshore Liquefied Natural Gas (LNG) plant. Subsea wells in the Cypriot blocks can be routed to a fixed platform in the Cyprus EEZ and then on to the LNG plant or FLNG.

Cyprus LNG Plant: The Optimal Gas Export Option

LNG stands out as the best choice for Cyprus gas monetization. Modular LNG plants can provide a faster, cleaner, scalable and more flexible solution for liquefaction. They are fully electric, running on Renewable Energy Sources (RES), with minimal greenhouse gas emissions, and they offer scalability and flexibility according to market demand.

Cyprus Energy Future: Leveraging LNG as the Pivotal Choice

The adoption of LNG is a potential game-changer for Cyprus. LNG can turn Cyprus into a regional Energy Service Center and a Trading Hub, attracting reserves from neighboring countries and serving as an alternative energy corridor for Europe. Greek LNG Tankers can transport the LNG to the Alexandroupolis FSRU for

regasification and export to Europe via the bi-directional gas pipeline Interconnector Greece-Bulgaria (IGB). Such synergies with Greece will enhance European energy security and accord to both Cyprus and Greece maximal geostrategic leverage and deterrence besides the economic benefits.

Moreover, bringing its own gas home encompasses huge advantages and benefits for Cyprus, comprising economic synergies, the diversification of the economy, increased competitiveness, and the boosting of GDP. Natural gas feedstock can support the development of a petrochemical industry and a wide range of industrial processes as an important ingredient in products, materials, and goods, including pharmaceuticals, thus boosting government revenue and profits. Furthermore, an LNG strategy will help create a downstream industry and strengthen the economy's industrial sector with an industry immune from external shocks.

The IMEC Geostrategic arc and the Window of Opportunity for Cyprus

Cyprus' energy planning must consider regional and global geopolitics and geoeconomics. The power struggle and the consequent instability in the international relations system has deep implications for the East Med Energy Corridor and the ambitions of Turkey to control energy routes in the region. The current configuration offers a unique opportunity for Cyprus to play a significant role in the East-Med Energy Map. Russia, a historically cheap energy supplier to Europe, has been sidelined due to sanctions.

A new transport, rail and shipping corridor was announced at the G20 summit in Delhi on 9.9.2023 to promote world trade. The India-Middle East-Europe Economic Corridor (IMEC) constitutes a geoeconomic project by the USA intending to counter China's expansionism via its Belt and Road Initiative (BRI). It represents a Geostrategic Arc, stretching from India to Europe via Saudi Arabia, Israel, Greece, and Cyprus to deter and contain threats from various countries regarded as hostile to American interests, such as Russia, Pakistan, Afghanistan, Iran, Iraq, and Syria.

This presents an exceptionally promising and significant opportunity for Cyprus. The Russia-Ukraine and the Israel-Palestine/Hamas wars are altering the international chessboard. Turkey's ambitions to lead the Islamic countries have triggered a vociferous and outspoken critique of Israel's actions in Gaza, which has frozen Turkish-Israeli relations as Turkey proves once again to be an unreliable partner for Israel.

In the shifting international landscape Cyprus should seek win-win outcomes and regional cooperation, including within the East Mediterranean Gas Forum. The current international environment underscores the importance of aligning Cyprus's

energy planning with worldwide and regional geopolitical and geoeconomic dynamics. This emphasizes the significance of achieving mutually beneficial results and fostering regional cooperation, where the United States and Israel can play a vital role in safeguarding offshore installations and gas infrastructure in the Cyprus EEZ. Cyprus provides the strategic depth that Israel currently lacks. Moreover, Cyprus has proven that it can function as a bridge for the rapprochement of Israel with the Arab states. Saudi Arabia is unlikely to stay out of the great energy game and the proposed IMEC geoeconomic and geostrategic corridor for long, given the traditionally enduring influence of the USA and the perspective of pursuing a two-state solution in the Israeli-Palestinian question.

Conclusion: Synergizing Geopolitics and Geoeconomics in Unlocking the Cyprus Energy Strategy

In conclusion, the dynamic interplay between geopolitics and geoeconomics in the context of recent global events, wars and regional energy ambitions have set the stage for Cyprus to accelerate the development of its gas resources and shape its energy future. By embracing LNG as the preferred option and capitalizing on the reconfiguration of interests and balance of power, Cyprus can position itself as an important player in the evolving global energy landscape. Taking control of its own gas resources and selecting LNG as its preferred energy strategy shall exert a transformative effect for Cyprus and its economy. This optimal energy strategy could prove to be a game-changer, offering economic diversification, energy security, and enhanced geostrategic influence in a rapidly changing world. In its pursuit of energy security and national security against the Turkish designs, Cyprus must navigate carefully, integrating geopolitics and geoeconomics strategically, and balancing wisely between pragmatic realpolitik considerations and adherence to international law.