

The risks and rewards of Israeli-Turkish energy cooperation

by Gabriel Mitchell*

At a press conference in Rome on June 27, 2016, Israeli Prime Minister Benjamin Netanyahu announced that Israel had reached a reconciliation agreement with Turkey. Israel's premier stated that rapprochement served Israel's strategic interests and would enable closer security cooperation with Turkey at a time when the region was experiencing an unprecedented wave of violence and radicalization. Netanyahu also emphasized the connection between the need to export Israeli natural gas and reconciliation with Turkey. "This agreement opens the way for cooperation on economic and energy matters, including the gas issue," Netanyahu [told reporters](#), "Gas is so important and contains the possibility of strengthening the Israeli economy and state coffers with vast capital...these are vast sums but we need markets...this could not have come sooner without this agreement and now we will work to advance it." Israeli Energy Minister Yuval Steinitz [supported Netanyahu's assertion](#), adding that the deal "will continue the development of Israel's natural gas market as well as the possibilities of finding and developing more gas fields beyond Leviathan."

Israeli public opinion supported both of Netanyahu's positions. In Mitvim's 2016 Foreign Policy Index survey, 26% of respondents answered that the most significant benefit of reconciliation would come in the form of security cooperation, and another 22% responded that the main benefit was related to the export of Israeli natural gas. Still, several months after the agreement was signed, it remains unclear whether this particular aspect of the post-reconciliation relationship will come to fruition. This article outlines the reasons why Israel sees Turkey as the best market for its natural gas exports, as well as the obstacles that can prevent the implementation of this project.

Boycotted by oil-producing Arab states and bereft of its own domestic energy supply for much of its history, Israel has been forced to cast a wide net in search of potential energy partners. As a result, Israeli energy policy has historically sought to balance a desire for affordable prices with a need to develop relationships with suppliers who would not harm Israel's core security interests.

In 2009, however, Noble Energy and Delek Group discovered Tamar field in what would become the first of many natural gas fields located in Israel's coastal waters and the greater Eastern Mediterranean basin.

***Gabriel Mitchell** is the US Representative of Mitvim – the Israeli Institute for Regional Foreign Policies. His research interests include energy politics, Israeli foreign policy, Israel-Turkey relations, and Israel-US relations. Before joining Mitvim, Mr. Mitchell was a research fellow at the Shalem Center and the Hudson Institute, as well as a breaking news editor at the Times of Israel. He has written extensively on Israel-Turkey relations and domestic Turkish and Israeli politics, publishing in The Jerusalem Post, The National Interest, The American Interest, Turkish Policy Quarterly, and The New Republic. Mr. Mitchell holds an MA in political science from the Hebrew University of Jerusalem, and is currently completing his PhD in Government & International Affairs at Virginia Tech. His dissertation explores the relationship between energy policy and foreign policy in Israel.

Already in production, Tamar holds an estimated 246 to 280 bcm (billion cubic meters) of natural gas and currently supplies more than half of the Israel Electric Corporation's annual needs – providing power to Israel and the Palestinian Authority. The field is expected to service Israel's electricity needs for the next 30 years.

It was, however, the discovery of Leviathan field in December 2010 that truly altered Israel's energy prospects. Located some 80 miles off the Israeli coast, Leviathan is estimated to hold between 470 and 620 bcm. With Israel's domestic needs for the foreseeable future already satisfied by Tamar, Noble, Delek and the Israeli government believed that Leviathan's resources should be exported to in order to turn a greater profit at a faster rate of production. Practically overnight, Israel became an energy-producing state with export potential. Although the topic generates intense political debate in Israeli society, [experts contend](#) that Israel's gas fields could generate somewhere around \$270 billion in revenues, sixty percent of which would go to the state in the form of royalties or taxes.

Because of Israel's geopolitical location, few export options are realistically available, each bearing its own set of economic and strategic pros and cons. One [quickly initiated](#) export option was a 15-year deal with Jordan for the sale of 45 bcm over ten years, but all told this is not a significant quantity. Like Israel, Jordan's market is comparatively limited.

Another option involves transporting Israeli natural gas to Egypt via an undersea pipeline. Israel and Egypt share a history of energy cooperation: As a condition of the 1979 peace accords, Egypt supplied Israel with oil and gas. While a long-term energy arrangement would strengthen Jerusalem's strategic partnership with Cairo, concerns about Egypt's long-term political stability remain. Furthermore, the 2015 discovery of [Zohr field](#) in Egypt's territorial waters — and its estimated 900 bcm — has also cooled the initial enthusiasm for this option: Such a massive field would likely make it difficult for Israeli natural gas to compete in Egypt's domestic market, leaving only the option of converting Israel's gas in Egypt's existing LNG plants and subsequently selling it to foreign buyers. Reports that the Tamar partnership and Spanish energy firm [Union Fenosa](#) are nearing a deal to route 6bcm through Egypt's Damietta LNG plant per year suggest that the Egyptian option will be used on a contractual basis. In sum, the Egyptian route is the surest option if Israel and the energy companies wish to sell on the European market, but it may also be the one that offers the fewest financial gains.

It has also been proposed that Israel construct an [undersea pipeline](#) to connect to Europe via Cyprus and Greece. Trilateral summits between Netanyahu, Cyprus President Nicos Anastasiades and Greek Prime Minister Alexis Tsipras to discuss Eastern Mediterranean projects lent some credence to this alternative, but those familiar with the operational complications of such a venture have quickly [rebuffed such notions](#). Current undersea engineering technology would be hard-pressed to construct a pipeline that could handle both the extreme depths of the Aegean Sea and the uneven terrain of the seafloor. Without a case to

convince investors of the feasibility and affordability of such a route, the Cyprus-Greece-Europe option is little more than a pipe dream.

In contrast to the aforementioned options, the Turkish route is both technically viable and financially rewarding. Turkey is one of the largest natural gas consumer markets in the world, burning through 50 bcm per year. Almost all of [Turkeys natural gas is imported](#): 57% of Turkey's annual supply is piped in from Russia and another 20% comes from Iran. Due to its overdependence on Russia and Iran, Turkey has always expressed interest in Israel's natural gas. Following the downing of a Russian jet along the Turkish-Syrian border in November 2015, Moscow levied a series of economic sanctions against Turkey and halted negotiations over the Turkish Stream pipeline designed to supply both the Turkish and European markets. Turkey's economy predictably stalled, acutely illustrating the drawbacks of overdependence on Russian natural gas and the significance of diversification of supply.

An Israel-Turkey natural gas arrangement, which many officials believe will be signed in 2017, may involve the transport of an annual 8-10 bcm to the Turkish market via an undersea pipeline. Construction of the pipeline would take several years and cost between \$2-4 billion. According to a *Globes* report, the pipeline deal would be [reciprocal](#), allowing Israel to import natural gas through the pipeline if necessary.

Some opponents of the Israeli government's plan to export Leviathan's reserves [argue](#) that Turkey no longer requires Israel's gas because it recently doubled down on Russian and Iranian natural gas. However, while the prospect of losing a portion of the Turkish energy market to Israel may have prompted President Vladimir Putin to accelerate his own reconciliation with Erdoğan, [Turkeys interest in Israeli natural gas has not diminished](#). And even if Turkey doesn't require Israeli natural gas for its own domestic needs, it might serve as a transit state between Israel and Europe, which is also trying to reduce its dependence on Russian energy. Steinitz's meeting with Turkish Energy Minister Berat Albayrak in October 2016, the [first high-profile meeting of Israeli and Turkish officials](#) since the signing of the normalization agreement, is further evidence of the parties' shared interest in establishing a long energy relationship.

Opponents also [counter](#) that a pipeline would actually make Israel more dependent on Turkey, an untrustworthy country whose leadership actively supports Hamas. Although pipelines should ideally create *interdependence* between suppliers and consumers, [transit states can influence a suppliers market share and use their](#) leverage to demand higher fees, or link other political issues to the flow of gas. Considering the recent political developments in Turkey, Israel should carefully evaluate the language of any long-term energy agreement in order to prevent the possibility of its energy being used as a weapon.

At the same time, commercial relations between Israel and Turkey [have never been better](#). Despite the two countries' diplomatic dispute, bilateral trade volume expanded between 2009 and 2016, reaching over \$5 billion in 2014. Since the outbreak of violence in Syria, Israel has become a [crucial port of entry](#) for Turkish

goods to the Arabian Peninsula. While Turkey's ability to use natural gas against Israel should not be ignored, the last six years have proven that it is possible for Jerusalem and Ankara to separate their strategic differences from their economic interests.

Several obstacles stand in the way of Israel and Turkey's commitment to build a pipeline. First, the dramatic drop in global energy prices has reduced the appeal of investing in Israel's offshore gas and expensive pipeline projects. Second, Russia might try to prevent Israeli exports to Turkey or Europe by flooding the market with inexpensive (and irresistible) gas – an extreme but nonetheless imaginable scenario. Finally, one should not forget that while a revised framework deal between the Israeli government and the developers allows for Leviathan's development, delays similar to what Israel has experienced in recent years could be ruinous.

The greatest obstacle to Israeli-Turkish energy cooperation, however, is the fact that any potential pipeline must run through Cyprus' territorial waters. Since the terms of the Israel-Turkey rapprochement were announced, Cypriot officials have reiterated that [no pipeline will run through their maritime space](#) before the country's forty-year dispute with Turkey and the Turkish Republic of Northern Cyprus is resolved. [On-again off-again negotiations](#) have taken place since March 2015, but the economic promise of connecting Cyprus' natural gas to an Israel-Turkey pipeline is not moving the needle on this process in any significant way.

One actor whose impact could supersede the numerous barriers to Israeli-Turkish energy cooperation is the United States. During the Obama administration, the US actively pursued the development of a regional energy architecture that would simultaneously strengthen its allies, [create a network of interdependence and cooperation](#) in the Eastern Mediterranean, and reduce Turkish and European dependence on Russian energy. It is unclear whether this strategy will be pursued by the incoming administration.

While the prospects of a pipeline are more likely with American support than without it, leadership and guidance from the world's energy superpower may not be enough. As US State Department special envoy for global energy affairs Amos Hochstein [admitted](#) to a Congressional Joint Subcommittee in September 2016, “The market is still looking for validation that historic political differences will not get in the way of investment and development.”

Conclusion

Historically, the strength of the Israel-Turkey relationship has been dependent on whether the ruling elites in both states shared common strategic interests, but in the current climate of intense geopolitical change, how can policymakers be certain that the overlapping agendas responsible for June's rapprochement will persist in the years to come?

The answer may be that, in order for bilateral ties to endure, the building blocks of this relationship must be reconstructed. There is already evidence that such a change is under way: The expansion of bilateral trade during years of diplomatic discord suggests that an economic narrative may be emerging alongside the preexisting security narrative that has shaped Israel-Turkey relations for so long. Whether the construction of an undersea pipeline could promote this alternative narrative remains to be seen – the excitement of achieving economic growth by exporting natural gas must be tempered with a sober analysis of the risks and an awareness that the odds are stacked against a project of this size.

The establishment of a long-term energy relationship would mark a major milestone in the history of bilateral relations between Israel and Turkey. Not only would economic relations take another solid step forward, but it would also motivate both countries to consider alternative approaches to resolving future disputes. It is safe to assume that enhanced economic relations would also have a positive trickle-down effect on the Palestinian economy, and perhaps create an opening to discuss opportunities for the development of Palestinian natural gas fields off the Gaza coast.

To realize these goals, Israeli and Turkish officials should engage in confidence-building measures that will support the negotiation process over a future energy arrangement. In addition, Israel and Turkey must seek the support of other investors – in addition to developers Noble Energy and Delek Group – in order to set up the capital necessary to complete this ambitious project. Finally, Israel must also find a way to discreetly support the Cyprus negotiations, on which the possibility of regional energy cooperation appears to hinge.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of GPoT Center, Mitvim Institute, and the Friedrich Ebert Stiftung.

Israel-Turkey Policy Dialogue Publication Series

Upon the signing of a reconciliation agreement between the Israeli and Turkish governments in June 2016, and the start of a new chapter in bilateral relations, participants in the ongoing policy dialogue between Mitvim - The Israeli Institute of Regional Foreign Policies and the Global Political Trends (GPoT) Center were asked to offer their thoughts on the lessons that can be drawn from the recent period of diplomatic tension, as well as the opportunities and challenges facing this bilateral relationship in the coming years.

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