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Research Report

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SWP Comment

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Israel's Contradictory Gas Export Policy

The Promotion of a Transcontinental Pipeline Contradicts the Declared Goal of Regional Cooperation

Stefan Wolfrum

In order to market its gas reserves, Israel has until now relied on exports to Egypt and Jordan. Through regional networking in the energy sector – for example, within the framework of the Eastern Mediterranean Gas Forum (EMGF), which was founded at the beginning of 2019 – the Israeli government hopes to improve its political relations in the region. At the same time, Israel is investing hope in the building of the EastMed gas pipeline. Its construction would create a direct export link to Europe, but it would thereby also undermine energy cooperation with its Arab neighbours. The European Union (EU) should promote regional energy cooperation, as this could promote partnerships in other areas. Accordingly, the EU should not support the construction of the EastMed pipeline.

Israel is estimated to have between 800 billion to 1 trillion cubic metres (m³) of natural gas. Its own consumption amounts to around 10 billion m³ per year; in 2017 this corresponded to around 35 per cent of total energy consumption. However, the exploitation of the gas fields for the export of this gas surplus has not progressed far. This is the result of Israel's hastily conceived energy policy, which is a result of the 2011–2013 energy crisis.

Back then, two developments came together: First, continued attacks on the pipelines in the Sinai forced Egypt – Israel's main gas supplier – to suspend gas supplies to Israel in summer 2011; second, the only developed Israeli gas field, Yam Tethys, was depleted at the beginning of 2012. As a result, the Israeli government

awarded all exploitation rights for the Tamar, Leviathan, Karish, and Tanin gas fields to the American-Israeli consortium Noble Energy/Delek Drilling without a call for tenders, since they had discovered the gas deposits. This was supposed to accelerate the development of the gas fields. In addition, the Israeli state-owned company Israel Electric Corporation (IEC) has granted the consortium a stable purchase price until 2021 that well exceeds the market price. Ultimately, due to a lack of competitive pressure, Noble/Delek's monopoly position did not lead to a swift development of new gas fields; moreover, it violated Israeli antitrust law. Legal actions followed – interventions by the Cartel Office forced Noble/Delek to sell some of its shares in the gas fields, thereby further delaying their development.



Controversial Export Strategy

In the debate that followed, critics from the Ministry of Energy and the Israeli Institute for Economic Planning warned that national gas reserves are indispensable for Israel's strategic autonomy and its own energy needs. The Israeli government, the foreign ministry, and the National Security Council on the other hand have maintained their export intentions to this day; they commissioned the interministerial "Tzemach" committee to develop a government policy. According to its 2012 report, up to 50 per cent of gas reserves could be exported. In 2018, the "Adiri" committee put this assessment into perspective in a five-year evaluation: From 2030 onwards, an energy shortage is to be expected in Israel, as gas reserves are likely to run out due to increasing levels of consumption (forecast for 2040: 35 billion m³ annually) and the conversion of electricity generation from coal to gas.

In the wake of the 2011–2013 energy crisis, this unclear policy confused foreign investors and kept them away from the Israeli market. For example, in 2014 the Australian company Woodside unexpectedly withdrew from a share purchase in the Leviathan gas field, and Edison – an already active energy company – left the Israeli market in August 2018. Only the Greek company Energean and an Indian consortium acquired concessions in two rounds of tenders for production licences. Energean explained that the time necessary for the development of the Karish and Tanin fields depends not only on Israeli domestic demand, but above all on export prospects. The Israeli government therefore regards the expansion of export opportunities as a means of developing, and thus exploiting, its gas reserves economically.

Expansion of Regional Cooperation

The geographically closest customers for Israeli natural gas are Jordan and Egypt, but the market situation in the region is chang-

ing rapidly: Although Egypt was dependent on gas imports in the past, it has been able to cover its own needs through domestic natural gas production since the beginning of 2019. However, the Egyptian government has in the past invested heavily in gas processing and liquefaction plants; the costs would only be amortised through high levels of exports, but this would require the country to continue importing gas. This market approach could subsequently make Egypt a hub for the export of liquefied petroleum gas. High population growth also suggests that Egypt will have to import natural gas again in the future.

After disputes between the IEC and the government in Cairo over gas supplies that began in 2011, the two countries reached an agreement in 2018: Israel is to annually export around 7 billion m³ of natural gas to Egypt for 10 years.

For gas exports, Israel has a pipeline near Sodom, which has been pumping small quantities of gas to Jordan since 2017, and the Arish-Ashkelon pipeline, which has been idle since 2011. Noble/Delek acquired 39 per cent of the shares for this pipeline for \$518 million at the end of 2018. According to expert reports, however, the export connection at Ashkelon can only be supplied with 2 to 3 billion m³ per year via the national Israeli pipeline system. Furthermore, the transport direction of the pipeline has to be reversed, which is costly and still delays Israeli gas supplies. Another argument against Israeli exports is that the Egyptian pipeline network on the Sinai Peninsula is already being used for exports to Jordan in the opposite direction. Stopping exports is unlikely because Cairo intends to supply half of Jordan's gas requirements by 2019. If Israel wants to consolidate or even expand its energy cooperation with neighbouring countries, which is necessary to develop its own gas fields, it must by all means invest promptly in additional infrastructure.

The construction of a third export pipeline, which will be completed by the end of 2019 and is expected to export 3 billion m³ of gas to Jordan annually, is also not pro-

ceeding without problems. Since many Jordanians regard cooperation with Israel as treason against the Palestinians, there is resistance among the population. Jordanian parliamentarians are threatening to terminate the import treaty or are calling for sabotage of the pipeline.

In order to nevertheless advance regional gas cooperation, Israel joined the EMGF as a founding member at the beginning of 2019. The forum also includes Egypt, Jordan, Cyprus, Greece, Italy, and the Palestinian Authority. It aims to create a common gas market around the Eastern Mediterranean by coordinating the energy policies of member countries. At present, the EMGF is a loose association and serves only communication purposes. Nevertheless, it is a promising format: Firstly, it is intended to harmonise the expectations and objectives of the gas importers and exporters in the region; secondly, it aims to guarantee security of supply; thirdly, it will promote interdependence through price collusion and by merging infrastructure in the region. Israel, in particular, hopes that cooperation in the EMGF will improve its relations with Jordan and Egypt: from the current security cooperation to the expansion of economic relations to a normalisation and deepening of political relations.

The EastMed Pipeline

However, Israel is not only counting on exports to the region, but also on the planned construction of a pipeline to Europe. Cyprus, Greece, and Italy also support such a transcontinental pipeline. In 2015 they asked the EU Commission to define the so-called EastMed project as a Project of Common Interest (PCI) (No. 7.3.1) and to include it in the Ten-Year Network Development Plan (Project Code: TRA-N-330), which aims to improve connectivity of the energy infrastructure in the EU. The pipeline project thus fits into the framework of the Southern Gas Corridor, which the European Parliament (EP) and the Council of the European Union adopted in Regulation 347/

2013. At the end of 2015, the European Commission, with the support of the Commissioner for Climate Policy and Energy, Miguel Arias Cañete, adapted this regulation by adding the pipeline project to the second PCI list. The Council and EP agreed to the list, and it came into effect two months later.

Construction of the EastMed would take four to five years and cost around 7 billion euros, with the EU bearing half of the cost. The other half would be financed by IGI Poseidon – a subsidiary of the Greek DEPA – and the Italian Edison. IGI Poseidon carried out a feasibility study in 2016 that was financed with 2 million euros from the Connecting Europe Facility programme. In 2022, the development phase and planning of the front-end engineering should be completed. The final implementation will then depend on the EU Commission, which approves the release of funds.

The pipe linkage to the EU would offer Israel a secure sales market and a way out of the energy isolation of the Middle East. This would make the EastMed pipeline an alternative to reforms of its own energy market and the costly expansion of infrastructure with its partly reluctant neighbours Egypt and Jordan. But although the feasibility study considers the construction of the world's longest pipeline to be realistic, it is not just the high costs and the security situation in the Eastern Mediterranean region that speak against it.

Trade-off between Regional and Transcontinental Cooperation?

For Israel, the construction of the gas link to Europe is attractive, primarily for security reasons. According to Israeli Energy Minister Yuval Steinitz, direct gas trade with the EU would deprive Arab states of the opportunity to put Israel under political pressure. Conversely, however, this project would undermine any regional cooperation in the energy sector. The exclusive access that Israel, Cyprus, and Greece would get to the EU gas market with the EastMed project

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would marginalise the Arab countries of the EMGF, and thereby paralyse the organisation. The economic and political potential of a common gas market in the Eastern Mediterranean, as envisaged by the EMGF, would remain untapped.

Israel's decision between regional and European sales markets does not have to be a zero-sum game though: Through long-term integration into the regional gas market, the European market could also be served if natural gas from the region were transported to the liquefaction plants in Egypt. This would be more cost-effective than pipeline construction and would spur the gas suppliers Cyprus and Israel towards far-reaching cooperation with Egypt as an energy hub.

Economic cooperation would also have an important side effect: The developing interdependence would not be easily reversed and could lead to an expansion of relations in the region. In particular, the EMGF could contribute towards resolving energy and inter-state conflicts, such as allocation of the Aphrodite gas field between Israel and Cyprus. The dynamics of the emerging gas market in the Eastern Mediterranean have, for example, already led to Lebanon – not a member of the EMGF itself – being put under pressure to negotiate the course of its maritime borders with its arch-enemy, Israel. The membership of the Palestinian Authority in the EMGF could also mean a new constellation in the Middle East conflict. Israel has already engaged in talks with the Palestinians about exploiting the gas reserves off the coast of Gaza.

Conclusions

The EU should take a clear stand against Israel's contradictory gas export policy: Regional energy cooperation in the Eastern Mediterranean must take precedence over

an expensive transcontinental pipeline project. The economic benefit of the project is doubtful anyway, because potential supplies from the Eastern Mediterranean (initially 10 billion m³ per year) are insignificant in relation to the total European demand. The EU could also achieve its objective of diversifying gas imports from third countries without pipeline construction. For example, a study by the EU's Directorate-General for External Policies in 2017 points to Egypt's key role in the gas market of the Eastern Mediterranean. It recommends relying on existing Egyptian infrastructure in order to supply the European market flexibly. Investments in additional infrastructure would only make sense once regional cooperation was functioning. In addition, the EU has declared an interest in intergovernmental cooperation in the region; it already supports it in the Euro-Mediterranean Partnership, the Barcelona Process (today: Union for the Mediterranean), and the European Neighbourhood Policy.

It would therefore be appropriate for the EU to reinforce the EMGF's claim to unify and coordinate the energy market in the Eastern Mediterranean. The uncertain economic benefits of pipeline construction would be offset by the considerable political benefits of regional cooperation. Since integration into the region through cooperation in the gas market would also offer political advantages for Israel, the EU should not further promote the EastMed pipeline project. Corresponding options for action would be: a debate in the EP, an agenda item in the Council, and the removal of the project from the PCI list by the EU Commission at the next proposal in 2021.

Stefan Wolfrum is research assistant in the project "Israel in a Conflicting Regional and Global Environment: Internal Developments, Security Policy and External Relations". The project is part of the SWP Middle East and Africa Division and is funded by the Federal Foreign Office.