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The Israeli Institute for Regional Foreign Policies

# Supercharged: The EuroAsia Interconnector and Israel's Pursuit of Energy Interdependence

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**February 2021**

## A. Introduction

Contemporary analysis of Eastern Mediterranean geopolitics tends to focus on the discovery of offshore hydrocarbons, and how a desire to maximize commercial profits has spurred a realignment of regional interests. There is similar emphasis on how this realignment pushed some Eastern Mediterranean states into conflict with one another over maritime boundaries and drilling rights. But while natural gas pipelines may dominate political and analytical discourse, there are other infrastructure projects that deserve attention and shed further light on the region's evolution and Israel's role in this transitionary period.

One example to support this claim is the EuroAsia Interconnector, an ambitious infrastructure project that intends to connect the European electrical grid via undersea cable from Greece to Cyprus, and Israel. Few in Israel are familiar with the interconnector. Unlike the much-publicized EastMed pipeline, the interconnector garners little attention. Ironically, there is a greater chance that the interconnector – whose cable would run along a similar route as the EastMed pipeline – will successfully link Israel and Europe in the Eastern Mediterranean, and not the more recognizable natural gas project.

This paper attempts to outline the principal reasons why Israel is interested in the EuroAsia Interconnector (EAI) and why an undersea electricity cable may be a more feasible project than the EastMed pipeline (EMP). In the process, it hopes to contribute to current research on Israel's engagement in the Eastern Mediterranean, as well as its transition from energy dependency to a new era of energy independence and interdependence.

## B. What is the EuroAsia Interconnector?

The EAI is an electricity interconnector, or in other words a high-voltage cable that links the electricity systems of neighboring countries (e.g., Greece, Cyprus, and Israel). Electricity interconnectors enable excess power to be traded between countries, thus reducing energy waste and electricity costs. Interconnectors can deliver electricity produced by fossil fuels and renewables. They can also help deal with intermittency – or energy disruptions – inherent in renewable energy generation like wind and solar power. On a cloudy day, for example, electricity can flow in from a neighboring country ensuring stability and reliability of supply. And unlike many pipelines, interconnectors transfer electricity in both directions. As a result, interconnectors secure electricity systems, permitting operators to respond to shifts in supply but also to disruptions such as accidents or emergencies. In principle,

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interconnectors are meant to reduce electricity costs for consumers. Much of this depends on transparent regulations, a system that allows for the efficient trading or selling of electricity on the market, and a reliable supply of electricity.[1]

The EAI is a European project, and one of several initiatives to diversify and enhance the European Union's energy security. Similar projects are being developed in Turkey, Morocco, and elsewhere. According to the European Commission, the stated purpose of these initiatives is to "help the EU achieve its energy policy and climate objectives: affordable, secure and sustainable energy for all citizens, and the long-term decarbonisation of the economy," in accordance with the Paris Climate Accord and the European Green Deal.[2] In principle, these initiatives will diversify and strengthen the EU's security of supply, thus reducing European dependence on both Russian energy and fossil fuels, while increasing cooperation between the EU and its neighbors. Greece and Cyprus, who for decades were not connected with the European grid, are the chief advocates for the EAI project and its primary beneficiaries.

According to the EAI's plan, the interconnector would deliver electricity via multiple, subsea HVDC (high voltage–direct current) cables with a total capacity of 1000MW.[3] The project is composed of several sections, the first being a cable from the Greek island of Crete to Cyprus, and the second connecting Kofinou, Cyprus and Hadera, Israel.[4] The projected cost of the project is between 2.5-3 billion USD. Of that, the Cyprus-Israel cable would add up to approximately 800 million USD. Upon completion, it would be the world's longest interconnector (estimated at 1,208 km).[5]

*The EIA's Investors and Beneficiaries*

The EuroAsia Interconnector is a joint endeavor by EuroAsia Interconnector Ltd., the EAI's official project promoter and developer, and the European Union. EuroAsia Interconnector Ltd. is a part of Quantum Corporation and Quantum Energy Group, a Cyprus-based company. Other companies partnering with EuroAsia Interconnector Ltd. include The Public Power Corporation S.A. of Greece, the Israel Electric Corporation, Belgian transmission system operator Elia Group, Siemens, et al.[6]

In 2013, the European Commission listed the EAI as a Project of Common Interest 3.10 (PCI).[7] In addition, the developers received funding from Connecting Europe Facility, an EU

[1] "What are electricity interconnectors?" *National Grid*, accessed on January 8, 2021 and Jo Leinen and Werner Langen, "Why Europe needs more electricity interconnectors, public and private," *Euractiv*, June 4, 2018.
[2] Key cross border infrastructure projects, *European Commission*, accessed on January 8, 2021.
[3] In the future, the EAI's capacity will be upgraded to 2000MW.
[4] The connection from the Greek mainland to the island of Crete is commonly known as the Ariadne Interconnector. Igor Todorovic, "EUR 400 million loan for Attica-Crete interconnection secured," *Balkan Green Energy News*, July 10, 2020.
[5] "The EuroAsia Interconnector route," *EuroAsia Interconnector*, accessed on January 8, 2021.
[6] "About us," and "EuroAsia Strategic alliance," *EuroAsia Interconnector*, accessed on January 8, 2021 and Adis Ajdin, "EuroAsia Interconnector gets green light for converter station in Cyprus," *Offshore Energy*, July 28, 2020.
[7] "Commission Delegated Regulation (EU) No 1391/2013 of 14 October 2013 amending Regulation (EU) No 347/2013 of the European Parliament," *Official Journal of the European Union*, accessed on January 2, 2021 and "EuroAsia Interconnector - Final Detailed Studies Prior to Project Implementation 3.10.1-0004-CYEL-SM-16," *European Commission*, accessed on January 8, 2021 and European Union PCI Interactive map, *European Union*, accessed on January 10, 2021.

grant designed to promote growth through targeted infrastructure investment in Europe.[8] As a PCI, the EAI can receive up to 50 percent of its funding from EU institutions.

Bridging the EAI with mainland Greece did present some complications. In 2016, Greece's Independent Power Transmission Operator (also known as IPTO or Admie) – who won the initial tender for the Attica-Crete leg of the interconnector – sold 24 percent of its shares to the State Grid Corporation of China (commonly known as State Grid).[9] Due to political sensitivities surrounding Chinese investments in Europe, the sale caused tension between Athens and Brussels and also between IPTO and EuroAsia Interconnector Ltd.[10] The issue was resolved with EuroAsia Interconnector Ltd. agreeing to construct and operate an independent Attica-Crete interconnector. It has since submitted a request to the EU for funding of this independent project.[11]

How does this project benefit the countries involved? For starters, the EAI will provide economic and political benefits for Greece and Cyprus. The interconnector delivers security of supply to Cyprus and the Greek islands and in principle will reduce electricity prices and dependency on fossil fuels, and provide jobs. The EAI will establish a physical link between these Eastern Mediterranean islands and the European continent. This is a crucial aspect of the project, from a Greek and Cypriot perspective, due to the heightened tensions with Turkey over maritime rights.[12] No, the cable does not resolve these issues but it is a reminder of Europe's commitment to member states on the union's periphery.

There are particular commercial and geopolitical benefits for Cyprus, which hopes that the construction of EAI and an additional undersea cable called the EuroAfrica Interconnector will spur investment in renewables and help the island nation become an important trading outpost for electricity in the region. Such plans will be partially dependent on domestic reforms to the electricity market.[13] Viewed from a geopolitical perspective, however, it is easy to understand why Cyprus would advocate for such projects. If both the EAI and EuroAfrica connector are successful, one could easily imagine a future proposal between Cyprus with Lebanon.

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[8] "Grant agreement to finalise the design of the EuroAsia interconnector signed in INEA today," *European Commission*, April 5, 2017 and "Connecting Europe Facility | Innovation and Networks Executive Agency," *European Union*, accessed on January 2, 2021 and "Connecting Europe Facility," *EuroAsia Interconnector*, accessed on January 12, 2021.

[9] "Ariadne Interconnection website," *Ariadne Interconnection*, accessed on January 12, 2021 and Yuan Shenggao, "State Grid's investment in Greek power transmission operator a win-win deal," *China Daily*, November 28, 2019 and "Greek power grid operator turns to China for fresh funding," *Reuters*, November 3, 2017.

[10] The controversy surrounding State Grid's investments in Greece and elsewhere in Europe is an ongoing issue. For a thorough review of these developments in Greece, read Stelios Bouras, "Greece turns to China to connect its far-flung islands to the electric grid, leaving Brussels in the dark," *Fortune*, January 25, 2020 and Richard Philips, "China flexing for global energy domination," *Financial Mirror*, February 14, 2020.

[11] Conversation with Dr. Charles Ellinas, Senior Fellow at The Atlantic Council, December 7, 2020 and Svetlana Jovanovic, "EUR 1 billion Crete-Attica interconnection draws bids from major cable construction players," *Balkan Green Energy News*, August 7, 2019.

[12] For more information on tensions between Greece and Turkey: "Timeline - Europe, Turkey, and new eastern Mediterranean conflict lines," *European Council on Foreign Relations*, and Sinem Adar and Ilke Toygür, "Turkey, the EU and the Eastern Mediterranean Crisis," *German Institute for International and Security Affairs*, December 2020.

[13] Charles Ellinas, "Cyprus interconnectors to end the island's energy isolation," *Cyprus Mail*, October 9, 2020 and "Cyprus electricity reforms, interconnectors are vital," *Financial Mirror*, September 3, 2020.

## C. Israel's Vacillating Interest in the Interconnector

Israel's interest in the EAI goes back at least a decade, when the Ministry of Energy (under the leadership of Uzi Landau) considered the prospects of selling electricity to Europe.[14] Investing in an infrastructure that would bridge Israel to Europe was seen as a natural economic and geopolitical goal. Europe is Israel's largest trade partner, accounting for approximately third of Israeli exports and half of Israeli imports.[15] It would also solidify the budding diplomatic relationship between Israel, Greece, and Cyprus. Offshore hydrocarbon discoveries in the waters of Israel and Cyprus encouraged this notion, as enthusiasm about the possibility of Eastern Mediterranean energy cooperation grew.[16] In 2012, the Israel Electric Corporation signed a memorandum of understanding (MOU) with EuroAsia Interconnector Ltd.'s precursor, DEH Quantum Energy, to assess the feasibility of an electric cable between Israel and Cyprus.[17] And in 2013, Israeli, Greek, and Cypriot energy ministers signed an MOU on trilateral cooperation in the area of waters and electricity.[18] These developments fit within a broader trend of regional cooperation on energy issues and the eventual establishment of the Eastern Mediterranean Gas Forum.

Israel's interests in the interconnector overlap with those of Greece and Cyprus. The EAI would physically link Israel and Europe, a bond whose importance should not be downplayed.[19] The tripartite alliance between Jerusalem, Athens, and Nicosia is one of Israel's most significant diplomatic achievements in the past decade, and warmly supported by Brussels. But as the partnership between these Eastern Mediterranean states grew from strength to strength, the EAI's prospects of completion waned. Delays in the development of the Attica-Crete interconnector and liberalization of Cyprus' electricity market gave Israeli officials reason to pause and reconsider whether the EAI would serve the country's energy needs.[20] If the the EAI could not guarantee that Israel would receive electricity in the case of an emergency, then why invest the money? Diplomats and politicians began to speak less of the undersea cable and more about the EastMed pipeline (EMP): an ambitious, 1,900-kilometer undersea pipeline project that would carry Israeli and Cypriot natural gas to Greece and Italy and onwards to Europe.

Since 2019, however, Israeli interest in the interconnector has rebounded. Why? Changes in the global energy market appear to be the dominant cause, although other regional developments should not be overlooked. To begin with, the EMP's prospects have plummeted. The pipeline lacks commercial feasibility. Although the governments of Israel, Greece, and Cyprus continue to present the project as the centerpiece of their partnership, they have moved on to other initiatives – including the revitalized EAI – in order to demonstrate their commitment to a common future.[21]

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[14] Conversation with Yana Greenman, Head of Foreign Affairs Department at the Israel Ministry of Energy, December 7, 2020.

[15] Jo Harper, "EU-Israel trade thriving, despite the politics," *Deutsche Welle*, April 19, 2018.

[16] Gabriel Mitchell, "The Eastern Mediterranean Gas Forum: Cooperation in the Shadow of Competition," *Mitvim Institute*. September 2020.

[17] "Israel-Cyprus underwater power cable takes shape," *Financial Mirror*, March 5, 2012.

[18] Stefanos Evripidou, "'Historic' plan for water and electricity," and Asher Zeiger, "Israel, Greece, Cyprus sign energy and water deal," *Times of Israel*, August 8, 2013.

[19] "Grant agreement to finalise the design of the EuroAsia interconnector signed in INEA today," *European Commission*, April 5, 2017.

[20] Conversation with Yana Greenman, December 7, 2020.

[21] ליאור גוטמן, "משרד האנרגיה ממחזר תוכנית לחיבור רשתות החשמל של ישראל וקפריסין," *כלכליסט*, 7 ספטמבר 2020 וחזקי ליפשיץ, "אנרגיה: ישראל תתחבר בקרוב לרשת החשמל האירופאית," *המחדש*, 7 ספטמבר 2020.

In addition, the European Commission advanced the European Green Deal, aimed to reduce emissions and phase out fossil fuels in favor of renewable energy.[22] Israel is not a member of the EU, but both parties see the Green Deal as a space for enhancing R&D cooperation. In June 2020, Israeli Minister of Energy Yuval Steinitz announced that Israel would ramp up investments in renewables to the tune of 22 billion USD over the next decade.[23] If and when the EAI is completed, Israel would in theory be able to sell surplus, solar-generated electricity to Europe.

Finally, the EAI faces new competition from the EuroAfrica Interconnector, a project that would connect Egypt to the European grid via Cyprus and Greece.[24] Plans for the EuroAfrica Interconnector were revealed in 2019, and the Egyptian government views it as a prestige project that would strengthen Cairo's strategic partnership with Cyprus, Greece, and the EU. While the Israeli market is more commercially viable, Egyptian officials have implied that Cairo is prepared to cover the interconnector's costs rather than wait for the European Commission to grant it PCI status.[25] Two interconnectors may benefit Cyprus, but is the EU willing to bankroll both? It may boil down to first come, first served.[26]

Israel's renewed interest in the EAI does not guarantee the project will be realized. It is comparatively low cost, but questions regarding the competitiveness of European electricity in the Israeli market (and vice versa) remain unresolved. Due to this uncertainty, Israeli officials view the EAI as primarily a way to boost Israeli energy security in the event of serious disruption to the country's electricity supply. As national infrastructures continue to digitize, these systems become increasingly vulnerable to cyber-attack. As reported by the *Financial Times*, in 2020 there were multiple attacks on electricity infrastructure around the world.[27] In Israel alone, there were at least five cyber-attacks targeted at the national water system, logistics systems, and Israeli companies.[28] Israel's unique experience with energy security has often encouraged officials to embrace bolder projects in order to shore up weak links in the national security system. Still, concerns that the EAI could not be relied upon in the event of an emergency are serious and hurt the project's overall appeal.[29]

The Ministry of Energy and the Israel Electric Corporation have conducted feasibility tests of the cable and are currently waiting on a 3rd party in Israel to assess the current plans. But even if the project passes the tests in Israel there is still ambiguity about who will cover the costs. Israel is waiting to see whether the EU will fund the project in the same manner as it did the Crete-Cyprus cable. Without EU support, it is unlikely Israel and Cyprus will

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[22] James Murray, "How the EU Green Deal is plotting a move to cleaner energy," *NS Energy*, January 29, 2020.
[23] Sue Surkes, "With $22 billion plan, Israel ups 2030 renewable energy target from 17% to 30%," *Times of Israel*, June 1, 2020.
[24] For more on the EuroAfrica Interconnector: EuroAfrica Interconnector website, accessed on January 12, 2021.
[25] Under President Sisi, Egypt has pursued policies that would transform the country into a regional energy hub. One aspect of those policies has been signing electricity interconnection deals with neighboring countries, like Saudi Arabia, Libya, Sudan, and Jordan. For more: Menna A. Farouk, "Egypt's electricity deal with Cyprus, Greece brightens energy outlook," June 13, 2019.
[26] Conversation with Yana Greenman, December 7, 2020 and "EuroAsia project moving again, Egypt present with EuroAfrica," *Energy Press*, October 22, 2020.
[27] Carly Minsky, "Internet of Energy powers up hackers' threat to electricity grids," *Financial Times*, November 25, 2020.
[28] "Cyber attacks again hit Israel's water system, shutting agricultural pumps," *Times of Israel*, July 17, 2020 and Stuart Winer, "Cyberattack hits Israeli companies, with Iran reportedly the likely culprit," *Times of Israel*, December 13, 2020.
[29] Conversation with Yana Greenman, December 7, 2020.

make the investment, especially if the EuroAfrica Interconnector's funding is secured. There is also a question about whether Israel and Cyprus can reach terms in which the two parties purchase one another's electricity even if they do not end up using it. Israel's Ministry of Energy is currently engaged in professional discussions with Cyprus, Greek, and other EU parties in order to better understand the structure of the European electricity grid, adjust their technical-economic assessment, and advance the preliminary processes in the event that the project goes forward.[30]

There are external pressures that are driving Israel's interest in the EAI. At the same time, Israel can wait out the construction of the Crete-Cyprus cable – estimated to be completed by 2023 – before making a commitment. Considering both the dramatic changes to the global energy market and regional geopolitics since Israel first took interest in interconnectors, new opportunities could present themselves in the coming years that could either give Israeli officials reason to reconsider their plans or double down on the EAI.[31] The biggest question is whether the government can be convinced to make the investment.

## D. Cables versus Pipelines

Over the past decade, the EAI and the EMP both featured as projects that would serve as the foundation for the tripartite alliance between Israel, Greece, and Cyprus, and link Israel to Europe. Both projects are PCIs, though at varying stages in the process. Similarities notwithstanding, a closer inspection of the differences between the EAI and EMP allows for a more nuanced understanding of why one is more likely to be realized than the other.

The EAI is first and foremost a European project designed to incorporate the Greek islands and Cyprus, a EU member state currently existing outside the European electricity grid. Including Israel has always been a part of the EAI's vision, and if it is realized then in theory this would also increase European energy security. However, Israel's commitment to the EAI is flexible and has changed over time. If the EAI only connects Greece and Cyprus then the project has still accomplished its primary mission. In contrast, Israel has been the EMP's most vocal advocate while EU interest has waned. One can understand Israel's enthusiasm about the pipeline, as it stands the most to gain commercially if the project were actualized. At present, Israel exports natural gas to Jordan and Egypt, however if other export options are not generated there is a possibility that some of Israel's gas will remain trapped under the sea. In other words, the directionality of the EAI and the EMP is different as are the interests and incentives for the actors involved.

Interconnectors may not be as sexy as pipelines, but the EAI does not face the same commercial obstacles as the EMP. Whereas the EMP would cost an estimated 8 billion USD, hurting the gas' chances of being competitive on the European market, the EAI's first stage is marked at an affordable 2.5-3 billion USD (the Cyprus-Israel cable 800 million USD of that total). There are questions about whether the domestic Israeli and Cypriot markets can liberalize in a manner that would permit European electricity to be competitive, but it is important to emphasize again that Israel is prioritizing this as a national security project that potentially pays economic dividends down the road. Is this a convincing reason to invest in the EAI? There are arguments both for and against, though it is important to note that demand for renewables is growing and interconnectors are commonly viewed as one of the better vehicles to maximize the strengths of green energy. This stands in stark contrast to

[30] Conversation with Yana Greenman, December 7, 2020.
[31] Conversation with Dr. Charles Ellinas, Senior Fellow at The Atlantic Council, December 7, 2020.

the pandemic's crushing effect on global natural gas prices, effectively burying the EMP's already dubious feasibility and casting doubt on the viability of other regional gas projects.[32]

Ironically, the EAI and the EMP may face a similar geopolitical challenge. Turkey viewed cooperative initiatives in the region as a plot by rival states that seek to contain its growth and violate its maritime claims in the Eastern Mediterranean. In late November 2019, Ankara signed an MoU with Libya's Government of National Accord, demarcating the maritime boundaries between Turkey and Libya and challenging Greek maritime claims in the process.[33] This triggered a tit-for-tat between Turkey, Greece, Cyprus and other regional actors that further dampened international interest in the region's hydrocarbons. According to international law, there is no distinction between laying pipelines or laying undersea cables, so it is unclear whether Ankara – who plays an important role in Europe's energy picture – will actively disrupt the EAI's construction plans, what consequences that will have on the project's future.[34]

Comparatively, the EAI is at a more advanced stage in its development than the EMP. The companies responsible for its development (excluding the Cyprus-Israel cable) have been determined. As a PCI with Connecting Europe Facility support, the financial base of the project is secure. It is clear that if the cable is delivered to Israel, the Israel Electric Corporation – the only vertically integrated public organization in Israel that produces, transmits, and distributes nearly all of the country's energy supply – will take the lead. So, perhaps comparative analysis is a flawed method for evaluating these projects. Still, despite the persistent campaigning for EMP few if any international companies expressed interest in investing in the project, let alone agree to finance it. Even if both projects are political, only one has managed to secure funding and start construction.

The success of infrastructure projects is largely dependent on funding and timing. During this transition period between fossil fuels and green energy, the EU's prioritization of renewables enabled the EAI to get off the ground. In contrast, Eastern Mediterranean hydrocarbons may be victims of the moment; technological advances enabled their discovery but market oversaturation and the rise of renewables have limited international interest in costly pipelines. Investment in large-scale projects relies on analysis of market futures. What will the regional and global market look like in one or two decades? These projects must also be at the right price. Energy security is a national security interest, but finding the correct solutions to addressing energy security questions requires a balanced understanding of economic, technological, environmental, and geopolitical trends. If the project improves the bottom-line economic concerns of consumers, the Israeli public would unquestionably be on board. Ultimately, the EAI's successful construction to Israel will depend on whether the net returns justify the cost.

## E. Thinking Big: Israel's Shift from Energy Dependence to Energy Interdependence

Israel is transitioning from the days of energy dependency to a new era of energy independence and interdependence, with all of the opportunities and challenges this presents. Projects like the EAI and EMP, that intensify the degree of economic and political

[32] Gabriel Mitchell, "Covid-19 Put the Eastern Mediterranean's Hydrocarbon Dreams on Hold," *War on the Rocks*, June 15, 2020.
[33] "Turkey and Libya sign deal on maritime zones in the Mediterranean," *Reuters*, November 28, 2019.
[34] Mustafa Özge Özden, "Turkey - Cyprus Island Interconnector as an Energy Policy for Turkey," *Turkish Policy Quarterly*, August 27, 2019.

integration with other international actors, will raise new subsets of domestic and foreign policy questions that policymakers need to start tackling now, before they are completed in order to be best prepared to meet the needs of their constituencies and navigate this uncertain but exciting period in the country's history.

As outlined in this paper, Israel is pursuing multiple infrastructure projects that would connect it with Europe. This speaks volumes about how government officials are thinking about the country's long term energy future. But why is it that the less feasible EMP has received consistent media and political coverage while the EAI rarely garners attention? And is there a way for the EAI to highlight the constructive side of Israeli-European relations?

There are also questions about future infrastructure projects, especially in the wake of the normalization processes with the Gulf States. Will Israel pursue similar-scale projects with new partners in the UAE, or in the direction of Africa? If Israel one day normalizes with Saudi Arabia, how will that alter Israel's long-term energy outlook? Or should Israel keep its interests local, focusing on investments that strengthen Jordanian and Palestinian energy security. Is there a way of using projects like the EAI to improve the security of supply for Palestinians, in particular those in the Gaza Strip? And while enhancing Israeli energy security is a national security priority, is there a way of accomplishing this goal that will also reduce consumer costs?

Infrastructure projects can support a new vision for bilateral or multilateral relations with other geopolitical actors, or reaffirm the trust that has been fostered over time, but it is dangerous to assume that physically welding Israel and Europe together supersedes investment in political, commercial, and civil society dialogue. In the event of the EAI's completion, Israel's partnership with Greece and Cyprus will arguably require even more investment that it received in the past decade. Relations with Brussels will similarly enter a new chapter, with opportunities for those who seek continued engagement.

Israel is boldly pursuing long-term strategies that will secure the country's energy supply. Both the EAI and EMP offer a window into the mindset of a country committed to finding creative solutions to current and future energy needs. As Israel further integrates into the regional fabric, complimentary interministerial cooperation will be required to assess the technical and commercial feasibility of international projects as well as their geostrategic consequences. The same applies to any future electricity interconnector. The challenge is creating the right balance between these often-competing agendas in a manner that serves both the public and national interest.