

Israel and Energy in the Eastern Mediterranean

Policy paper based on a meeting of the
“Israel in the Mediterranean” working group

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This paper focuses on the role of energy in shaping Israel’s policies towards the Mediterranean. It is based on the main points raised at the fourth meeting of the research and policy group on “Israel in the Mediterranean” held in December 2019 at the Hebrew University in Jerusalem. The meeting was held at the initiative of the Mitvim Institute, the Hebrew University’s Leonard Davis Institute for International Relations and Haifa University’s National Security Studies Center. This paper highlights the main repercussions of energy findings on regional cooperation and the opportunities it opens up for Israel. It presents the link between diplomatic and economic considerations, and the emerging energy alternatives that Israel is considering as it formulates and implements policies. The paper does not reflect agreement among all meeting participants.

A. Energy and Geopolitics

Israel is building an alternative to its Middle Eastern neighborhood, based on natural gas findings in the Eastern Mediterranean. While the Eastern Mediterranean does not address Israel’s security needs in the Middle East, it does foster civilian and economic ties with neighboring states. This shift away from Middle Eastern states is based on the assumption that a peace arrangement between Israel and the Palestinians is not on the horizon and therefore Israel faces a glass ceiling in regard to its potential cooperation with the Arab world. At the same time, opportunities for Israel to enhance ties with the Arab states active in the Eastern Mediterranean – Egypt, Jordan, the Palestinian Authority (PA) and even Lebanon – are opening up. The Eastern Mediterranean, also encompassing Cyprus, Greece and Italy, provides important connections with Europe, which is seeking to diversify its energy sources. This, in turn, serves Israel’s interest in bolstering ties with Europe.

The new neighborhood, centered on the developing alliance between Israel, Cyprus and Greece, is to a large extent based on and born out of joint interests in the energy sphere, mostly related to natural gas. To strengthen the alliance, the three states convene periodic summits of their leaders and promote cooperation in various areas. In addition, Israel has worked to create international support and an umbrella for the alliance. To that end it has encouraged the US to back the alliance, which also serves the American interest in regional stability.

The energy component, which regional players regard as key, also raises important geo-strategic considerations for Israel. One of them has to do with Egypt as an anchor of regional stability, guiding Israeli policy towards Egypt and the al-Sisi regime. In fact, some Egypt-related Israeli decisions on energy issues are informed not only by economic considerations;

they are actually viewed through a diplomatic prism. Israel must balance its interest in strengthening Egypt and supporting al-Sisi's diplomatic and energy initiatives, and its reluctance to develop eventual dependence on Egypt. This balance should guide Israel's conduct vis-à-vis Egypt's aspirations to become a regional energy hub, with which Israel is cooperating. An additional diplomatic consideration for Israel is linked to its campaign against the boycott (BDS) movement. Israel's nascent success in exporting gas, especially to Arab states such as Egypt and Jordan, undermines the movement's arguments.

Israel's considerations regarding energy also relate to its array of ties with enemy states or with those with which its relations are tense. For example, natural gas is a key issue in Israel-Lebanon relations. Lebanon is promoting the development of energy reservoirs in its territory, which this led it to engage with US mediation regarding the Israel-Lebanon maritime border dispute. Israel and Lebanon may find themselves competing for contracts with international energy conglomerates, but while energy could presumably constitute an additional element of conflict and rivalry between them, it could also provide an opportunity for negotiations and new channels of communication, mutual arrangements and, perhaps, future cooperation.

An additional and even more relevant example is Israel's relationship with Turkey. In recent years, Israel and Turkey seem to have given up on each other and diplomatic relations between them are tense. Turkey has an interest in the gas fields to its south and it could be a relevant partner for Israel in the energy field (the two sides conducted gas export discussions in recent years). However, the option of gas export from Israel to Turkey was abandoned primarily for political reasons. As chances of Israeli-Turkish cooperation decreased, Israel strengthened its alliance with Greece and Cyprus and tightened relations with Egypt based on joint interests in gas exploration and exports.

While most of the energy-related diplomacy currently revolves around natural gas, renewable energies could also provide an important contribution in this regard. The world of green energy offers numerous long-term opportunities for diplomatic, economic and technological links between Israel and regional actors. Israel's Ministry of Energy should lead the discourse on these opportunities and the path to their fulfillment.

The regional energy economy and the opportunities it offers Israel should also be analyzed in terms of prospects for a future Israeli-Palestinian peace process and of opportunities for Israel in times of peace. Development of the natural gas field off the Gaza coast, and future connections with countries such as Libya and Algeria, and even with Gulf States that display an interest in the Eastern Mediterranean, could constitute additional components on the regional energy cooperation map.

B. Balancing Diplomatic and Economic Considerations

Unlike oil, there is no global benchmark price for natural gas. Price negotiations are conducted on a case-by-case basis, providing economic flexibility, along with political and diplomatic flexibility, in managing a gas-based energy economy. In Israel, this generates two related arguments – one focuses on foreign relations, which seeks to strike the right balance between diplomacy and economics so that both serve Israel's interests; the second focuses on domestic affairs and pits potential profits from foreign gas sales against potential domestic benefits. Some argue that Israel would be better served by foregoing the economic profits in return for diplomatic ones, for example exporting gas at relatively low prices in

order to strengthen relations with other countries and prop up neighboring regimes, chief among them Egypt and Jordan. Others criticize this approach, seeking to take advantage of the natural gas first and foremost for the economic wellbeing of Israel's citizens, by cutting energy prices and the cost of living and increasing state revenues. International energy companies are an additional player, with their own divergent interests affecting the state's ability to set gas prices and its independence in formulating optimal policy.

It is important that Israel balances these economic and diplomatic considerations. Inflated pricing or, alternatively, unusually low prices of export gas will be detrimental to diplomacy. There is an economic limit of reasonable cost beyond it diplomacy is undermined. We must not forget that the energy economy is growing, and in setting the prices of gas exported to Egypt or Jordan, consideration must be given to the fact that even if those countries currently lack better alternatives, that could change in the future.

The explosions of the Egyptian gas pipeline that ended Egyptian gas exports to Israel in 2011-12 are an example of the intertwining of economy and politics. At the time, the gas exports to Israel drew harsh criticism in Egypt, which was experiencing an economic and political collapse, with critics arguing that exports to Israel were not profitable. The halt of gas exports to Israel served Egypt's interest at the time, but cost Israel 8-9 billion NIS. Although international arbitration ruled in Israel's favor, Israel ended up waiving most of the Egyptian payments that were supposed to compensate Israeli consumers. Instead, Israel signed new gas deals with Egypt for exports in the opposite direction – from Israel to Egypt. For now, the deals are benefiting energy companies and supporting diplomatic efforts to stabilize Egypt.

The multinational energy corporations' attitudes to Israel are yet another example of mixing geopolitics with economics. On one hand, many companies still avoid cooperating and doing business with Israel as long as the regional conflict continues. On the other hand, multinational groups that identify key economic interests in cooperation with Israel and are also active in the Arab world could constitute an important bridge for regional connections. This is illustrated in the way Jordan presented the deal to buy gas from Israel's Leviathan offshore field as an agreement with the American Noble Energy company, not with Israel.

C. Diverse Energy Sources: From Coal to Gas, from Gas to Solar

There is a growing global movement towards green energy and reduced use of fossil fuels. According to UN data, 26 percent of electricity is already produced from renewable energy sources, mostly hydroelectric, followed by solar and wind energy. There is also an alternative use of hydrogen and atomic energy. Solar energy is even cheaper than production of fossil fuels, whereas the marginal cost of gas production is higher. The problem with solar energy is that it is unclear how sufficient quantities can be stored for use after sundown. The shift of the transportation economy to electricity and improvement of energy storage capacity will bolster this trend over time. Consideration must also be given to the growing trend illustrated by the EU's decision to shift to green energy, the decision by cities to shut down natural gas facilities and by corporations and pension funds to avoid investment in fossil fuels.

The Israeli public cannot pay for both gas and coal power stations. Solar energy has become much cheaper, but it still cannot replace fossil fuels as Israel's main energy source. The technology to harness maritime energy or wind, and the infrastructure able to support it, are

insufficiently developed in Israel. For these reasons, natural gas should be viewed as Israel's main energy source in the coming years, reducing coal emissions and quickly advancing the field of renewable energy to eventually replace the gas (which will remain a strategic reservoir). Israeli regulation must be adapted to support development of local energy solutions and advancement of renewables.

The shifting trend to renewable energy opens up diplomatic and business opportunities for harnessing Israeli knowledge and innovation in these fields. The Israeli Ministry of Foreign Affairs is working to attract foreign companies and players to Israeli technology and is recording success. There are over 200 Israeli firms developing innovative energy solutions, which can be leveraged. Markets must be opened, especially re-emerging ones in Africa.

Consideration should also be given to the development of atomic energy facilities in the region. The Russians are promoting the construction of nuclear reactors for civilian use in Egypt, and have even developed floating reactors. In planning regional energy policy, Israel should take this into account, as well as the security and environmental implications of these reactors.

In the next century, after coal burning is completely abandoned and vehicles shift to natural gas use, Israel will have the advantage of a local, independent natural gas capacity. The shift to renewables could also bolster this trend and build a decentralized local gas economy, with production taking place where consumption is located and not hooked up to major networks. On the other hand, hookups to large energy transmission and storage networks could supply tools for dealing with shortages of renewable energy. Thus, for example, connection to a geographically widespread electricity network could provide a tool for the correct management of energy surpluses and shortages to transmit electricity from a place where the sun has not yet set to a place where night has fallen, or for better exploitation of the wind flow. Progress on the [Euro-Asia Interconnector](#) project – a subterranean electric cable between Israel, Cyprus and Greece which has been agreed on by the three states and whose initial segments have already been laid – is a step in that direction.

D. The Regional Gas Forum as a Hub for Cooperation

The centrality of natural gas as a component of national security in the states of the Eastern Mediterranean led them to establish the Cairo-based Eastern Mediterranean Gas Forum (EMGF). The forum consolidates several regional alliances that have developed in recent years, and serves as an institutional hub for the emergence of the Eastern Mediterranean as a distinct sub-region. States and organizations are examining the development of the regional gas forum as a test-case for additional regional fora in other fields, such as water and desalination, climate change, maritime strategy, and more.

The regional gas forum provides infrastructure for cooperation in the Eastern Mediterranean and for links between states that need the regional body to communicate with each other. Its future success in mobilizing additional states as potential members, such as Lebanon and Turkey, could also contribute to regional stability. It is important to keep the door open for their participation. Recognizing its importance, non-governmental and private bodies are seeking to join the regional forum. Countries from outside the region, such as France and the US, are also asking to join, whether as permanent members (France) or observers (the US). Meetings of the forum could also be leveraged for side-meetings involving civilian and business organizations from the member states.

Already in this initial stage of its formation, and parallel to the decision to turn the forum into a recognized international organization, the forum constitutes a component in strengthening ties between Israel, European and Arab states. The forum also constitutes a unique framework for membership by both Israel and the Palestinian Authority, which could contribute in the future to fostering the peace process between them. In view of this potential, the forum also provides a diplomatic opportunity for Israel, not just an economic opportunity. Israel must operate within the regional forum in a cooperative manner that will also serve its interests in stability, energy security, a sustainable environment and advancement of peace. It should also draw lessons from its difficulties in engaging with other international organizations.