

Closed Session

A Geopolitical Dimension of Energy Resources in the Eastern Mediterranean

Dr. Alberto Belladonna



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DR. ALBERTO BELLADONNA

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Dr. Alberto Belladonna

Alberto Belladonna is a Research Fellow at ISPI where he works in the Centre for Business Scenarios and Infrastructure. He holds an MBA and an MSc in International Relations. Before joining ISPI, Alberto worked as a Business Analyst at the Italian Chamber of Commerce in Guatemala and as Adjunct Professor at the University "Francisco Marroquin" of Guatemala where he taught courses in geo-economics and international trade. Previously, he collaborated with other Italian think tanks focusing on the geo-economics of China, with particular attention devoted to the Belt and Road Initiative and China's presence in Africa. His research interests are related to geo-economics, international trade and foreign direct investment regulation.

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A Geopolitical Dimension of Energy Resources in the Eastern Mediterranean

Recent natural gas discoveries in the Eastern Mediterranean have raised hopes for prosperity in the region. However, new tensions have erupted, and the full potential of natural gas is still untapped. The aim of this session is to better understand the major issues which

impede further exploration and to relaunch regional cooperation based on a win-win cooperative strategy among all stakeholders involved. Turkey, in particular, has a major role to play, having the potential to become a pivotal actor in this process.

Towards a 'Golden Age A Gas'?



Until recently, natural gas has been considered costly and difficult to exploit when compared to other hydrocarbon resources such as oil or coal. However, in the past two decades, circumstances have changed significantly, and today natural gas plays an increasing role in the world energy market. Gas now comprises 25% of the world energy mix and is expected to overtake coal as the second leading source of energy by 2040¹. In twenty years, global natural gas production has increased by 60%, driven in particular by rising demand and a subsequent improvement in cost competitiveness. Technological developments in both the extraction and transportation sectors, new environmental legislations, recently discovered abundant resources and the wide geographical distribution of natural gas have contributed to 'a golden age of gas,' as predicted by the International Energy Agency (IEA) in 2011².

However, the full exploitation of gas resources and the development of a global natural gas market face a series of obstacles. Extracting gas requires long-term investment, and because gas reservoirs frequently occur where national borders overlap, political and diplomatic cooperation is essential. The connection of production sites with end-consumer countries requires the construction of costly gas pipelines. There are also strong geopolitical considerations as the linkage of production sites and end-consumer countries necessitates long-term bonds. Although liquefied natural gas (LNG) provides increased flexibility, it does not offer a solution to all gas-related problems, as it still incurs relatively high mid-stream costs. The relative potential volume of LNG is also small when compared to the capacity of pipeline streams.

¹ International Gas Union (IGU), Global Gas Report, 2019. Available at: <https://www.igu.org/research/global-gas-report-2019>

² International Energy Agency (IEA), Golden Rules for a Golden Age of Gas, 2013. Available at: <https://www.iea.org/weo/goldenrules/>

What's for Turkey?

Turkey, with its geopolitical position as a bridge between Asia, the Middle East and Europe, is a natural regional hub for oil and gas.³ Two oil pipelines cross Turkish territory: the BTC (Baku/Tbilisi/Ceyhan), which begins at the capital of Azerbaijan and crosses Georgia; and the Kirkuk/Ceyhan, which begins in the Iraqi city of Kirkuk. Both pipelines end in the Turkish port of Ceyhan on the Mediterranean, from which oil tankers depart for European ports. Moreover, Turkey is crossed by three gas pipelines: the Blue Stream, which brings gas from the Russian city of Beregovaya, crossing the Black Sea and arriving in Turkey near the city of Samsun; the South Caucasus Pipeline from Azer-

baijan, which follows a route parallel to the BTC; and the Trans-Anatolian Natural Gas Pipeline (TANAP), which brings Azeri gas to Europe by passing through Georgia and Turkey. In addition, two other pipelines are under construction: the Southern Gas Corridor, which will originate in Tabriz, Iran, and pass through to Greece; and TurkStream, which will resume the South Stream route to divert south in the last section, heading to the Bosphorus, and then connecting to the Trans Adriatic Pipeline (TAP). Turkey's ambition to become a Euro-Mediterranean and Euro-Asian energy hub is also justified by its economic dimension and its growing demand for energy.

The Turkish Energy Market

With an average GDP growth of 4.5% since 2002, the energy consumption in Turkey has more than doubled in each segment, from power generation to residential consumption. In 2000, domestic gas consumption was 14.6 Bcm and is projected to rise to 88 Bcm by 2020⁴. In fact, since the early 2000s, the first objective of the Turkish government has been to attract more investment in the energy sector. In 2001, the Natural Gas Market Law entered into force. By removing subsidies and promoting market economy measures, the reform aimed at changing the market from a structurally vertical, integrated design, dominated by a state-owned company, to a more open platform. It eliminated the state monopoly on import, export, transmission, distribution and sale of natural gas, opening the market to private agents. In this regard, the Natural Gas Law of 2013 introduced fundamental changes in regulation, allowing private companies to enter the market as importers and wholesalers. Competition among private agents in the market has be-

come a central mechanism. The state withdrawn and taken on a regulatory role in the form of a new, independent Energy Market Regulatory Authority, and it holds control of key network infrastructure. Currently, shares controlled by the private sector account for 75% of the market, compared to 25% in 2002, and investment in the power market has increased to \$60 billion.

With energy imports accounting for 70% of consumption, with 93% of oil and 99% of gas coming from imports,⁵ Turkey spends \$40 billion annually for energy. The second main government objective is therefore to make the energy market more resilient based on a 'strong economy and national security'. This is why in 2017 the new National Energy and Mining Policy was launched, composed of the following three pillars: predictability of market reforms; indigenisation; and security of supply.

³ Turkey's Ministry of Foreign Affairs, Turkey's Energy Profile and Strategy. Available at <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa> (last access: 27/12/2019)

⁴ World Bank, Turkey's energy transition, milestones and challenges, Report n. ACS14951, 2015. Available at <http://documents.worldbank.org/curated/en/249831468189270397/pdf/ACS14951-REVISED-Box393232B-PUBLIC-EnergyVeryFinalEN.pdf>

⁵ Export.gov, Turkey - Oil and Gas Equipment - LNG and LNG Terminals, Upstream, Downstream and Midstream. Available at: <https://www.export.gov/article?id=Turkey-Oil-and-Gas-Equipment-LNG-and-LNG-Terminals-Upstream-Downstream-and-Midstream> (last access: 27/12/2019)

Predictability of Market Reforms

With an increasing energy demand for both industrial and residential consumption, establishment of a foreseeable market to attract investments has been essential. To this end, the new National Energy and Mining Policy intends to advance with market liberalisation according to international standards, restructure in-

stitutions in the energy sector and invest in new energy infrastructure. In 2018 the Natural Gas Trade Platform was also launched to improve and increase the functionality of the energy market, contributing to the establishment of Turkey not only as an intermediary country but also as a trading centre.

Indigenisation

The development of indigenous production and national resources is the second pillar of the National Energy and Mining Policy and a major driver in the strategy for the reduction of the country's resource dependency. To that end, greater attention has been devoted toward the increase of investments in renewable energy and energy efficiency projects. In particular, Turkey aims to increase the level of renewable energy to 30% of total energy consumption by 2030. As an example, great attention is dedicated to the devel-

opment of solar energy, which has the highest potential when compared to other renewables. Turkey's solar energy capacity was 1,000 MW in 2017, and there is estimated growth to 5,000 MW by the end of 2023. In 2018, an energy efficiency plan was introduced which contained 55 actions in 5 strategic sectors. With an investment of \$11 billion, the aim is to reduce energy consumption by 40% and eliminate 66 million tonnes of CO₂ emissions.

Security of Supply

Although Turkey is relatively poor in natural resources, it is close to many actual or potential energy suppliers (Turkey's neighbouring countries produce 60% of the world's oil and gas.). Turkey is at the crossroads of transit routes between countries which supply energy and those which demand energy resources. Turkey is still dependent, however, upon a few sources of energy supply.⁶ Turkish imports from five countries represent more than 90% of the country's crude oil imports, with the lion's share coming from Iran and Iraq. Russia, Iran and Azerbaijan provide 70% of Turkey's natural gas imports. For this reason, the new National Energy and Mining Policy aims for diversification, reliability of suppliers' sources, and a cost reduction for imported energy resources. In terms of diversification, Turkish sources for natural gas are from pipelines with

Azerbaijan (via the Baku-Tbilisi-Erzurum Pipeline, BTE), Russia (via the West Pipeline and Blue Stream), and from the new Trans-Anatolian Natural Gas Pipeline (TANAP), which adds a new route for Azerbaijani gas to Turkey. Furthermore, Turkey and Russia are planning the construction of the TurkStream Natural Gas Pipeline Project, conceived as an alternative to the West Pipeline. Turkey is also planning a Northern Iraq Natural Gas Pipeline with the Kurdistan Regional Government in Iraq, and it is also focussing on recent gas discoveries in the Eastern Mediterranean. This last issue is central to Ankara's plan, making Turkey the final consumer of newly discovered gas in the Eastern Mediterranean, as well as a transit country for this resource. LNG is also an alternative source of gas, reducing Turkey's dependency on just a few sup-

⁶ International Energy Agency, Turkey's country overview, 2017. Available at: <https://www.eia.gov/beta/international/analysis.php?iso=TUR>

pliers. Turkey has undertaken several infrastructure investments, for example the 1994 construction of the first regasification terminal in Marmara Eregli, and the 2006 building of Ege Gaz Aliaga. Major sources of LNG are Algeria, Nigeria, Qatar and the United States. Attention has also been targeted upon upstream drilling activities. In 2016, Turkish Petroleum unbundled to fo-

cus on exploration and production both onshore and offshore. Operations have been initiated in the Black Sea, and since 2017 in the Mediterranean. Drilling operations began there in 2018 under licenses granted by the Turkish government and the Turkish Republic of Northern Cyprus.

New Gas Discoveries in the Eastern Mediterranean: a Source of Prosperity for the Region?

The Eastern Mediterranean has become the stage for a series of complex geopolitical dynamics initiated by recent large gas discoveries in the Mediterranean's Levant Basin. Explorations in the region have been ongoing since 1969, but only minor hydrocarbon offshore fields had been discovered. However, an important breakthrough happened between 2009 and 2011 with the discovery of the Tamar and Leviathan fields off the coast of Israel, and the Aphrodite field off the coast of Cyprus. These discoveries were estimated at a total capacity of about 990 Bcm. Although these

discoveries were not significant enough to elevate the region as a pivotal area for the world energy market, they aroused the interest of energy companies willing to explore further for potentially more promising deposits. In 2015, the Italian ENI company discovered the vast Zohr deposit in the Egyptian offshore area 190 km from Port Said, estimated to hold as much as 850 Bcm. A few years later, new deposits in Cypriot water, Calypso, and new reserves adjacent to Zohr, Glaucus, were discovered, with additional, potentially exploitable fields offshore the Lebanese coast and Gaza. The US Geological Survey (USGS) estimates a mean of approximately 3,453 Bcm of recoverable gas in the overall Levant Basin Province. In addition, technically recoverable natural gas exists in Egypt's Nile Delta Basin, most of it in the sea, estimated at around 6,310 Bcm. Although these quantities are small when compared to the estimated 14 Tcm of Iran's South-Pars field, or the 3.9 Tcm of Russia's Shtokman gas field, they are significant for local economies. These new gas discoveries resolve regional energy needs, and they can also turn the area into a regional energy hub, enabling some countries to become net exporters of gas. In order to ensure growth and development in the region, significant coordination and cooperation among neighbouring countries is required. However, a series of obstacles, political conflicts and border disputes are constraining the full exploitation of this potential.

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Open Issues

One of the main issues related to the full exploitation of gas reserves in the Levant Basin is strictly related to their offshore locations, where the rights of coastal countries often overlap and the exact delimitation of the zone of competence of each state involved is quite complex. According to the 1982 United Nations Convention on the Law of the Sea (UNCLOS), a state has special rights regarding the exploration and use of marine resources, including energy production from water and wind, inside an exclusive economic zone (EEZ). This is a sea zone that stretches from the baseline out to 200 nautical miles from the coast. However, there is no clear way to define the exact area of competence. The UNCLOS affirms that EEZs between states with adjacent coasts must be implemented fairly through agreements between the parties, and, according to art. 59 in cases where this Convention does not attribute rights or jurisdiction to the coastal State or to other States within the exclusive economic zone, and a conflict arises between the interests of the coastal State and any other State or States, the conflict should be resolved on the basis of equity and in the light of all the relevant circumstances, taking into account the respective importance of the interests involved to the parties as well as to the international community as a whole.⁷

For historical and political reasons, most of the countries involved do not have maritime delimitation agreements, making it thus extremely difficult to find an appropriate settlement for the exploitation of gas reserves in border areas. Even when maritime delimitation agreements exist, they are often a source of further disputes. This occurred because of the exact delimitation of the EEZs during the Israel-Lebanon-GCA dispute, which was sparked after Israel and GCA agreed to delimitate their EEZs in 2010. Their settlement, according to Lebanese authorities, absorbed de facto parts of the Lebanese EEZ previously estab-

lished with GCA. Problems arose between Israel and GCA concerning the exploitation of the Aphrodite reservoirs as they are partially in Israeli waters, and their extent into the Israeli EEZ is under question. Nicosia is indeed at the centre of other major disputes in the area, strictly related to the unresolved political division of Cyprus between the Turkish Republic in Northern Cyprus (TRNC) and Greek-Cypriot Administration. GCA became a member of the European Union in 2004 and acts as the sole representative of the whole island. Negotiations promoted by the United Nations have not yet resulted in a solution. Relying upon international recognition, GCA affirms that it is not contrary to sharing resources with the TRNC as a two-community joint agreement, but only in the event of the reunification of the island. Under these circumstances, GCA has been exploring offshore hydrocarbons since 2006 in a 13-block area south of the island, and it has held two international tenders. The first tender in 2007 licensed Block Number 12, while the second, in 2012, licensed Blocks Numbers 2,3,9,10 and 11.⁸ Turkey and the TRNC have condemned the actions of GCA and have acted against them. Hence, in 2011, Turkey and Northern Cyprus decided to delimitate their EEZs, and offshoring exploration licenses were granted to the Turkish Petroleum Corporation in zones that partially overlap with blocks licenses by GCA, for example Blocks 3 and 12. Turkey also claims that some of the blocks licensed by GCA, such as Blocks 9 and 10, are actually within the Turkish EEZ. International tensions therefore erupted in 2015, 2018 and 2019. In particular, in the beginning of May 2019, the Turkish drillship Fatih began its offshore drilling operations 75 kilometres off the western coast of Cyprus. On July 8, 2019, a second drillship, Yavuz, arrived south of the Karpas Peninsula on the east of Cyprus, a section of the island that the TRNC claims as part of its EEZ. As panellists have underlined, tense relations between Turkey and GCA are among the major obstacles to the exploitation of the full po-

⁷ United Nations' Oceans and Law of the Sea (UNCLOS). Available at: https://www.un.org/depts/los/convention_agreements/texts/unclos/part5.htm

⁸ Cyprus Ministry of Energy, Commerce and Industry, granted licenses. Available at: http://www.mcit.gov.cy/mcit/hydrocarbon.nsf/page16_en/page16_en?OpenDocument (last access: 27/12/2019)

tential of the energy discoveries in the region. Turkey is not only the best market for these resources, but it is also a pivotal actor that can ensure the involvement

of large-scale economies in gas exploitation projects.

Gas Exploitation Projects

Apart from the accurate definition of each EEZ, another major issue of tension in the region is strictly related to the most effective methods for the exploitation of gas reservoirs found in the Eastern Mediterranean. Gas exploitation requires long-term investments. In order to be competitive in the global market, gas exploitation must ensure an economy of scale, which none of the single reservoirs can guarantee, especially compared with cheaper Russian and Qatari gas. The best option, therefore, is to sell the gas at the regional level, reducing mid-stream costs and taking advantage of the increasing energy demands in the two biggest markets in the area: Turkey and Egypt. Political tension, especially between the Greek-Cypriot Administration (GCA) and Turkey, has prevented the consideration of Turkey as the best marketing option. Israel attempted to establish stronger energy links with Turkey in 2014 when it proposed to connect the Leviathan Reservoir to Turkey by pipeline. This option was aborted due to the political tensions which erupted between the two countries during the same year. Even if the relations between the two countries were to improve, building a pipeline to Turkey would still require passing through Cyprus due to the ongoing civil war in Syria and a lack of diplomatic relations between Israel and Lebanon. However, because the Turkish option was blocked because of poor Turkish-GCA political relations, the only remaining option was to export to the European Union.

In an attempt to coordinate actions and find a common solution to the energy exploitation of resources in the Levant Basin, several summits were held: the Egypt-Greece-GCA Summit (Athens, December 9,

2015) and the trilateral Israel-Greece-GCA Summit (Nicosia, January 28, 2016). These summits paved the way for the agreement between Greece, GCA and Egypt for the definition of their EEZs and the recognition by Israel of the Greek and GCA EEZs for the passage of gas pipelines from the Leviathan Field. A final support was given to the Eastern Mediterranean Gas Pipeline Project, the EASTMED pipeline, designed to connect Egypt, Israel, GCA, Greece and Italy, the cost of which has been estimated at 6.2 billion euros. The project was also considered as an opportunity to inaugurate a season of new cooperation, as seems likely between Israel and Egypt. Relations between the two countries have been peaceful since 1978 and have been constantly improving. They have been limited, however, to the diplomatic level. In September 2018, Delek Drilling and Noble Energy, the operators of Israel's largest natural gas fields, Tamar and Leviathan, joined with the Egyptian East Gas Company to buy control of a pipeline to Egypt, paving the way for Israeli gas exports into Egypt. According to a statement by Delek Drilling, the three companies signed a deal to buy 39% of the shares of the pipeline owner, Eastern Mediterranean Gas Company. The buyers would pay \$518 million, with Delek and Noble contributing \$185 million each. The remainder would be paid by the East Gas Company. The creation of the Eastern Mediterranean Gas Forum (EMGF) during a summit in Cairo in 2019 strengthened the economic cooperation between Israel and Egypt, and this could be a prelude to the establishment of extended collaboration in several sectors.

On January 14, 2019, the energy ministers of GCA,

Egypt, Greece, Jordan and Israel, together with representatives of Italy and the Palestinian Authority, met with representatives of the US and the EU in Cairo in order to discuss how to promote the development of natural gas discoveries in the Eastern Mediterranean. The result was the creation of the Eastern Mediterranean Gas Forum (EMGF), a platform to develop a regional gas market, cut infrastructure costs, and offer competitive prices.⁹ Egypt, with its newly discovered gas fields, geographical proximity to other fields, and its already existing infrastructure for the export of LNG (with an export capacity of 19 billion cubic meters per year) was intended to play a stronger role as a regional gas hub. It would act not only as a destination, but also as a main exporting platform.¹⁰ However, one of the major actors in the area was missing during this discussion: Turkey. Ankara seems to be politically isolated at the present time, at both regional and international levels. In addition to diplomatic tension with GCA, Turkey maintains a cold relationship with Egypt, the other big player in the region, especially after the takeover by Abdel Fattah al-Sisi in 2014, which Ankara condemned.

At the international level, Turkey's isolation is the consequence of a series of circumstances. First of all, the United States supports the Eastern Mediterranean Gas Forum, considered by Washington as a source of dialogue and common prosperity. Washington is in favour of forging a democratic block in the Eastern Mediterranean, linking Israel, GCA and Greece, and strongly supporting dialogue between Israel and Egypt. The US administration has focused upon Egypt as a future regional gas export hub in the Eastern Mediterranean region. The US is supporting the strengthening of Egypt's energy production, storage and distribution capacity through private/public partnership programs and technological transfer. The United States is also interested in maintaining business opportunities for its companies which are directly involved in gas

exploration. Finally, there is also a broader implication, since the Eastern Mediterranean gas can become a geopolitical tool to reduce the increasing European energy dependence upon Russia. The EU is indeed one of the main supporters of the EMGF and of the EASTMED Pipeline project, which was considered as part of the EU Project of Common Interest since 2013. The EU financed half of the project's technical, commercial and financial feasibility study, with large European oil and gas companies involved in the exploitation of the gas potential of the region¹¹. Finally, China is also mildly supportive of the EGMF Forum since it is primarily interested in maintaining good diplomatic relations with Greece, GCA, Egypt and Israel. All of these countries have increasingly strategic roles in the Chinese Belt and Road Initiative, while Turkey-China relations might be harmed during this process.

Finally, there is also a broader implication, since the Eastern Mediterranean gas can become a geopolitical tool to reduce the increasing European energy dependence upon Russia.

⁹ Simone Tagliapietra, An opportunity for natural gas in the eastern Mediterranean, Bruegel 2019. Available at: <https://bruegel.org/tag/eastern-mediterranean-gas-forum-emgf/>

¹⁰ Sohbet Karbuz, Natural Gas Resources in the Eastern Mediterranean: Challenges and Opportunities, IEMED 2012. Available at: https://www.iemed.org/observatori-en/arees-danalisi/arxiu-adjunts/anuari/med.2012/Karbuz_en.pdf

¹¹ European Union Commission, Eastern Mediterranean Natural Gas Pipeline – Pre-FEED Studies, 2015. Available at: <https://ec.europa.eu/inea/en/connecting-europe-facility/cef-energy/7.3.1-0025-elcy-s-m-15>

A Way Forward

The isolation of Turkey in the regional cooperation dialogue of the energy sector is a major obstacle for the exploitation of the full potential of the gas resources in the Levant Basin. According to energy experts, exporting gas to Turkey either by pipeline or by tankers is one of the best economic options. First of all, Turkey, with its energy-thirsty market, is the natural destination for regional gas. It also has lower mid-stream costs. Second, Turkey also has the geographic potential to offer an alternative and more economic path for gas pipelines from the Levant Basin into the major Western European markets. In particular, a more technically feasible and economic alternative to EASTMED would be to connect the regional gas to Turkey by submarine pipeline (about 600 km, with shallow water), and from Turkey to Europe through the international pipeline network of TANAP and TAP. The two pipelines are part of the Southern Gas Corridor project, the EU's Southern Gas Corridor designed to transport gas from the Shah Deniz-2 field in Azerbaijan to Turkey via TANAP, and to Europe via TAP. Of the 16 billion cubic metres of natural gas, 6 billion cubic metres will be delivered to Turkey via TANAP, while the remaining 10 billion are to be delivered via TAP to Greece, Albania and

Turkey also has the geographic potential to offer an alternative and more economic path for gas pipelines from the Levant Basin into the major Western European markets.

the Adriatic Sea on the way to Italy. This was a solution which participants in the sessions proposed for future pipeline connection of Eastern Mediterranean gas with Turkey.

As a matter of fact, the participants at the session have agreed upon the fact that Turkey should play a major, active role in the region, especially when it comes to energy. To do so, however, Turkey should act as a responsible actor and stand as a regional power that brings solutions to local conflicts and disputes. China can be an example to follow. Beijing is also involved in local and regional territorial disputes, such as those in the South China Sea and the East China Sea. As is similar to the Eastern Mediterranean, the exact delimitation of EEZs and the exploitation of natural resources constitute the main reasons for diplomatic tensions. Tensions persist, and the only way forward is to find a legal settlement to the offshore territorial disputes, as mentioned by a panelist at the session. Beijing is nonetheless trying to lever its economic power in order to become a center of gravity for the region, and it is creating institutions that are promoting a vision of development for the area that do not depend upon external actors. Only with a strong economy and cooperative posture can Turkey exploit its full potential and become a real center of gravity in the region. But how? Panelists at the session concurred that the first and foremost issue of importance is cooperation in order to define each country's EEZs. Once the EEZs are defined, other issues may arise, especially when a reservoir is located in more than one EEZ. In that case, the panelists agree that once the correct location of the reservoir is defined, there must be an approximation of how much is located in each country's EEZ. The best way is to establish joint operations. In disputed areas, joint exploitation can also lead to deeper cooperation among regional actors. In the case of Turkey, however, the main obstacle derives from its problematic relations with GCA. As was mentioned during the session, it is of vital importance to find a common solution to conflict about Cyprus.

Conclusion

In the current age of uncertainty, the energy sector is undergoing important and rapid structural changes that will profoundly transform the world we live in. Gas in particular is considered the most promising fuel, as part of a transitional process of decarbonization with a progressive substitution of clean and sustainable energy solutions for hydrocarbons. Still, the golden era of gas is now, and recent discoveries in the Eastern Mediterranean can play an important role for the region. They can bring prosperity and promote a deeper cooperation among regional states. It is important, however, that the benefits can be grasped now, while avoiding any delay that could make investments untimely and no longer economically viable. For this reason, as underlined throughout the entire session, it is important that all actors in the region fully cooperate with each other to avoid falling into the most

classical game theory, prisoner's dilemma. Individual, short-sighted interests could lead to a suboptimal scenario, detrimental to the entire region. In this regard, Turkey is pivotal. Only through integrating Ankara into the regional cooperation framework can the full potential of energy discoveries be unleashed for the benefit of the region as a whole. The TANAP project can be an example to follow for Eastern Mediterranean gas: It brings gas from the Caspian Sea to the European market, passing through Georgia and Turkey, benefiting all parties involved. To be successful, the panelists have agreed that Eastern Mediterranean cooperation on energy exploitation requires political willingness and commitment from all stakeholders. They must become part of the solution, rather than part of the problem.

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