



The War in Gaza and the Implications for Energy in the Eastern Mediterranean

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EXECUTIVE SUMMARY: The war with Hamas in Gaza and the clashes in the north against Hezbollah are inevitably affecting both the regional and global energy markets. Uncertainty is not good for economic markets, especially the energy sector. There have not yet been significant increases in oil prices, and natural gas prices have risen only marginally - but no major new deals are being made because the global energy market is waiting and watching, or showing "cautious nervousness." This is mainly because there are still high quantities of gas available in the market. Europe has managed to overcome the lack of gas from Russia with supply from other sources (mainly liquified gas from the US and elsewhere), and European emergency stores are almost completely full.

Few have yet compared the current energy situation in the Middle East to the oil embargo surrounding the Yom Kippur War in 1973. A couple of weeks ago, the Iranian Minister of Energy called for a similar boycott at the gathering of the Islamic Conference in Saudi Arabia, but as expected, his call went unanswered.

With that said, the situation in the Eastern Mediterranean is complex. The Israeli Ministry of Energy's October 9 instruction to Chevron to temporarily halt gas production in the Tamar field did not materially affect the local energy market. Chevron announced that it was able to compensate for the lack of gas from Tamar with other fields, both for the Israeli market and for the export markets in Egypt and Jordan. However, the situation could become more difficult as the fighting continues, especially if it escalates to include additional arenas.

It is important to keep an eye on this, especially with regard to the possible consequences for Egypt. Egypt is facing a shortage of natural gas for the local market that has led to power outages from time to time. Moreover, its dire economic situation necessitates the flow of gas from Israel - both for the domestic market and no less importantly for export in order to bring foreign currency into the depleted Egyptian treasury. Present estimations indicate a sharp decrease of gas export to Egypt of around 70%(!). This could have serious internal and regional political consequences. The angry reaction of President Sisi to what was interpreted as an Israeli attempt to evacuate Palestinians from the Gaza Strip into Sinai reflected his concern about both Egypt's poor economic position and the strategic implications of the Gaza problem being pushed into Egypt's front yard. A few days ago, fuel prices in Egypt increased by about 15%, but the government said it will not raise the price of basic products. Egypt's worsening economic situation should be of considerable concern to the region and beyond.

An equally interesting arena is Lebanon. The drilling by the Total company in Block 9 did not yield positive results. Although no official announcement was made by the Lebanese Ministry of Energy, reports indicate that no gas was found. This is a fairly common result in the energy sector, as gas often fails to be found with the first drilling. But in view of Lebanon's current economic and political circumstances, this is not good news. Reports indicate that the Lebanese government is trying to convince the relevant companies to drill in Block 8 to preserve "energy momentum". In the present circumstances, with clashes between Hezbollah and Israel taking place, the energy angle is naturally being sidelined, but it will be very important later.

In the Cypriot arena, Chevron submitted an up-to-date action plan to the government regarding the Aphrodite gas field, including its intention to export the gas to Egypt. The government responded with reservations. The dispute has not yet been settled, though it probably will be in the next couple of months. The Israeli angle concerning this field is not clear (there is a dispute regarding the Israeli portion of this field), but when Chevron decides to proceed with Aphrodite, a means will likely be found to settle this angle as well.

In addition, the Italian company ENI is expected to drill in another field with positive potential in Cypriot waters at the beginning of next year.

There is uncertainty regarding the Turkish position on Cypriot energy potential. It should be expected that if Chevron takes practical steps in the Aphrodite field, Ankara will respond. Although the atmosphere between Turkey and Greece is improving, this is mainly on the bilateral level between those two countries. Cyprus is another matter. Intriguingly, however, the Turkish Foreign Minister made a statement in which he suggested finding a way to share the gas between Greek-Cypriots and Turkish-Cypriots even in the absence of a comprehensive solution to the Cyprus problem. Is this a serious idea? Will it be possible to motivate all the parties to take such a creative and pragmatic step? Time will tell, but clearly the Israeli-Lebanese maritime agreement has spurred some creativity about other conflicts in the region.

For the time being, the war in Gaza has not created too many waves in either the regional energy sector or the global one. However, the uncertainty will increase as the crisis continues, especially against the background of the ground operation in the Gaza Strip. Escalation in the Lebanese arena would further exacerbate the situation. It is important to stress that although there is no apparent shortage of natural gas in the world market, and although it is to be expected that Saudi Arabia and its Gulf partners will adopt a responsible policy in this regard concerning oil, ongoing instability could have a negative effect on the energy sector. Obviously, Washington is aware of this and is paying close attention. Israel needs to do the same because of the strategic implications for the region.

Interestingly enough, the Cypriot Energy Minister stated on November 8 that the war might provide an impetus to plans for a pipeline conveying offshore natural gas to Cyprus for processing and shipping to foreign markets. He added that energy cooperation between Israel and Turkey might have fallen by the wayside given Turkey's increasingly harsh criticism of Israeli actions in Gaza. While it is too early to assess the implications of the war for Israel's plans for another export option for its natural gas, lessons should be taken the day after.

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