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A Strategic Vision for Gas: Italy in the Equilibrium of the East Mediterranean Region

Valeria Termini

In a climate of general distraction, a historic agreement for the EastMed, a gas pipeline that will connect the eastern Mediterranean to Europe, has finally reached its conclusion. Drawing from Leviathan's offshore gas resources recently discovered north of Israel (about 530 mm), this new pipeline will deliver part of its reserves to the European Union via Cyprus, Greece and Italy. At the beginning of April, the agreement was signed by European Energy Commissioner Miguel Canete, Italian Minister Calenda and the respective Ministers of Israel, Cyprus and Greece, the other countries involved. This distraction was brought on by the disappointing outcome of the G7-energy meeting that marked a consensus of "6 against 1" as the United States informed the other participants that it would be reviewing its position on the roadmap on climate change established in Paris (2015 COP 21).

The EastMed agreement is of extraordinary significance as it re-affirms that the resources of the eastern Mediterranean are at the core of EU economic and political interests at a time of great difficulty and geopolitical tensions; a time in which Europe has failed to secure itself as a protagonist in this area. However, this new deal asserts EU interest in the region while simultaneously avoiding confrontation with Russia as the pipeline presents itself as complementary to existing and planned supplies of Russian gas. It is not therefore a direct action against Russia that could have prevented Italy’s support.

Valeria Termini is Professor of Economics (Università di RomaTre), Commissioner of the Italian Energy and Water Authority (AEEGSI), and Vice-President of the Council of European Energy Regulators (CEER). She is also a Senior Fellow at the LUISS School of European Political Economy. This policy brief was first published in Italian as the article “Gas: una vision strategica paga” on ***AffarInternazionali****, the policy portal for the Istituto Affari Internazionali (IAI) and can be found at the following link:* http://www.affarinternazionali.it/articolo.asp?ID=3912. *The opinions expressed by the author do not involve the institutions AEEGSI and CEER*

The development of EastMed comes from afar. The pipeline has already been included among the Projects of Common Interest (PCI) of the European Commission for the South Corridor in 2015 as well as the 10-year European Investment Plan to strengthen the Single Energy Market. In addition, it benefited from the Connecting Europe Facility (CEF) fund with € 2 million co-financed for the Technical and Economic Feasibility Study of IGI-Poseidon (50% Edison and 50% Depa). The positive outcome has opened up the design for a 1,300-km offshore gas pipeline linking Israel, Cyprus, Crete and the Peloponnesian peninsula before crossing about 600 km on the surface of Greece to its final stretch along the Ionian coast to reach Italy, as established by April's Agreement. A transport capacity of 10 billion cubic meters of gas, which can be extended to 20 through complementary infrastructure, has an estimated cost of 6 billion euros.

For many years, those who have worked to affirm Italy's positive role in the relations between the Mediterranean and Europe have long awaited an agreement of this nature. This is a concrete step towards a Mediterranean gas hub in which Italy may reaffirm its position, created at the time of Mattei, and pursued in recent years through the strengthening of the infrastructure and the laying down of clear and necessary rules to give certainty to investments.

The benefits of a long-term vision

Many elements of the project contribute to a long-term, economic and geopolitical strategy, based on energy, that transcends the borders of the European Union and the Eastern Mediterranean countries. With the necessary precautions, given future uncertainties, Italy could also reap important benefits from it. The three main benefits are included below.

1. For the European Union, the new pipeline represents a clear step forward in the strategy of the Energy Union (2016) aimed at diversifying routes and sources of gas and oil imports. The EU, as it is well known, imports 70% of the gas it consumes, 40% of which is from Russia (DG Ener 2016). The new pipeline puts the Mediterranean at the center of energy security for member countries, next to Russia.

Furthermore, gas transits from the Mediterranean to the north of Europe rebalances European geography and strengthens the position of the countries of the south shore, too often referred to as the weak links in the Union's finance and accounting. At the same time, it introduces an element of security for the Union, consolidating Europe's supply capacity through southern corridors that do not directly depend on transit through Turkey.

2. For Italy, gas transit enhances and strengthens the country's position in Europe, offering a positive contribution to the very delicate field of energy security. In economic terms, it is also clear that the induction of new infrastructure creates income and employment, in addition to enhancing the investments of Snam Rete Gas, already implemented in accordance with the European regulation network codes to allow bidirectional north-south gas flow and vice versa. By the same token, the new Agreement perfectly inserts itself in the prospects of Italian engagement in the Mediterranean, which sees Eni as the protagonist of the great gas explorations in Egypt (the Zohr reserve), part of which are to be conveyed to the EU as well.

Italy is historically a major importer of Russian gas and will continue to be as the energy transition to reduce air pollution and towards renewable sources progresses; the Mediterranean pipeline is therefore complementary to Russian sources.

3. Finally, for the two sides of the Mediterranean, the EastMed pipeline is a strategy of mutual economic and political interest. From a geopolitical point of view, building common interests can only be a win for the dramatic scenario of the Eastern Mediterranean. After the " water peace ", between Rabin, Peres and King Hussein of Jordan in 1994, on which a lasting path of co-operation and non-belligerence was built, energy is the second step in the same direction towards regional agreements, the latter being in process with due reserve.

It is not yet clear how Trump will lay down the US non-conventional gas export policy and especially if US LNG companies will privilege the Pacific Coast or Europe. It is clear, however, that for the EU's energy security - and certainly for Italy's - the ongoing energy transition is progress to launching a concrete gas hub in the Mediterranean that provides elements of security to supply and growth.

Obstacles along the path

Contrasting elements have seemed at times insurmountable. In 2015, Israel, the producer, overcame the challenge of obtaining Parliament consent to export gas, except for the sources necessary for future domestic consumption. It also kept open the option of exporting to the Pacific, which was preferred thanks to the significant price difference with Europe ($ 7 / mmBtu in Europe vs. $ 11 / mmBtu in Japan, source BP 2015) making gas sales to Japan, South Korea and Pacific countries more attractive. Ultimately, the strategy of directing gas to Europe prevailed given the extent of the reserves available and the long life span. But first Turkey, then the Balkans, seemed the favored candidates for transit to Europe, while the LNG option remained open with a possible route through Spanish regasification terminals.

All projects would have excluded transit through Italy.

There were also obstacles from the standpoint of buyers. Indeed, the EU is historically weary of Israel, the producer state in this case, aggravated by recent policies set in place by Netanyahu towards the Palestinians. At the same time, the European Energy Union Strategy (2016) aimed at diversifying sources, countries and gas supply routes has not produced any resulting policies, particularly for the exploitation of the reserves of the eastern Mediterranean.

The causes are complex and include: southern routes being frozen by the dialectic between Putin's plans for a new gas pipeline, EU rules to contain market power, political instrumentalization of Russian gas -- an aspect upon which at times the United States interjected-- as well as the political uncertainty caused by events in Turkey. In 2016, a bilateral project between Germany and Russia for the construction of the North Stream 2 pipeline, which would double the Russian gas transport capacity to the EU, was added to the picture. It would make Germany the central link between gas imports to Europe while making infrastructure investments in the southern corridor to receive gas from the eastern Mediterranean and the Caucasus redundant. The Russian-German project is still on stand-still, blocked by checks on compliance with EU competition rules in place to safeguard common European commitments. The outcome of the political deal is not by any means a given.

Lastly, adding to this picture, the US influence. Having had a prominent voice in the past years, the USA has been cautious, seemingly favoring the transit of Mediterranean gas through the Balkans, as opposed to Italy, where the decision-making process offers fewer guarantees and more uncertainties for such strategic, long-term investments.

However, the distraction amidst the G-7 created extraordinary conditions to seize the moment and sign the agreement: an unexpected benefit of the Trump era!

Ultimately, the agreement reached between the four countries of the Mediterranean and Europe clearly show the project's long-term strategic value at a time of great geopolitical tensions, where the convergence of economic interests between the European Union and the eastern bank of the Mediterranean may and must play a politically strategic role. The construction of the EastMed gas pipeline in the short-term could mark a decisive turning point for Italy's role in the European energy strategy. Using the conditional is a must as this is an important step albeit within a long troubled path, where every obstacle risks blocking the long-term trajectory.