

SOUTH EAST MED ENERGY & DEFENSE

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THE ANALYSIS INSTRUMENT FOR THE STAKEHOLDERS



“Energy War” in the Eastern Mediterranean. Is this the new “Big Game”?

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The Eastern Mediterranean Basin and the Balkans will be a major hub of Europe's energy security, with USGS and IEA estimations showing confirmed and potential O&G reserves able to satisfy growing EU energy demand over the next 35 years at least. Unfortunately, the area is subject to events that could create further instability and risk for the security of infrastructures and further investments.

Revisionist Turkey poses one of the biggest threats

The reality and extent of the risk for EU energy security became clear in the recent past, through a number of events, with many players playing around the East-Med basin. In the beginning of February the Italian company ENI, holder of concessions in Cyprus' EEZ, confirmed the presence of a large Natural Gas reserve in Cyprus Block 6 (Calypso). The confirmation came after the SAIPEM 12000 exploration vessel completed successfully its activity in Block 6 and started moving towards Block 3.

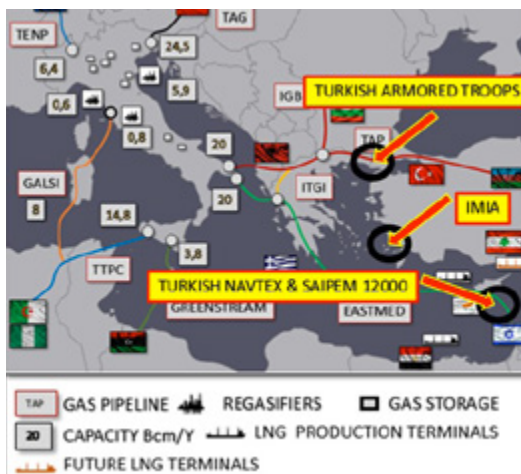
Halfway SAIPEM 12000 was illegally stopped, threatened with sinking and put on hold by the Turkish Navy, through a number of NAVTEX along the vessels path. This has triggered an international confrontation between Turkey, Cyprus, Italy, Greece, the EU, Egypt and the USA. Few days before, Turkish President Erdogan, during his visit in Rome, had warned about his future action and dislike for ENI and SAIPEM (both Italian) activities. The particularity of this action in the area was that in the exact area pass two natural gas pipelines: the ITG and the TANAP/TAP.

The European reaction, lacking a real military instrument as well as a firm foreign policy, has been weak and days after the

Two U.S. investments with geostrategic importance in Greece

The U.S. Ambassador in Athens Geoffrey Pyatt addressed recently the Greek shipping community in “The SeaNation Conference: The Global Impact of Shipping” in Athens, stressing the country’s importance in the region. He, also, announced two American investments in Greece with great geostrategic importance:

“Over my year and half in Greece I’ve been really amazed by the success story that is Greek shipping. The size and global impact of the Greek shipping industry is a tremendous accomplishment, for which the Greek people are justifiably proud. I look forward to seeing even stronger cooperation between Greece and the United States in the coming months, and am confident that 2018 is on course to be a groundbreaking year for our bilateral relationship. Our economic ties are gaining strength. The United States hopes to see enhanced bilateral investment cooperation between our countries, including an overall strategy where **Greece serves as a regional hub and supplies energy from diverse sources to Europe, spurred by increased U.S. investment in this critical sector**, as well as U.S. investment in Greek shipping, ports, and shipyards. American companies are finding opportunities here. I traveled to Syros last year and saw firsthand the potential of that historic shipyard, **which ONEX is now working to unlock and further develop**. I look forward to returning to Syros later this year for the **re-opening of the shipyard under new U.S.-based ownership**. I also hope that U.S. companies will have the opportunity to **invest in the Alexandroupolis port**. The strategic position of this port was on full display last year, when elements of the U.S. Army’s 10th Combat Air Brigade used it as a staging area for helicopters and cargo returning back to the U.S. from Romania. Last week the Deputy Commander of the U.S. Army’s 21st Theater Sustainment Command, Brigadier General Maiocco was in Greece **to visit and to see firsthand the potential to develop this strategic infrastructure of Alexandroupoli**. And I am confident we will see strong American investor interest in the Alexandroupoli port and related FSRU. In conclusion, I want to reiterate how proud I am to say that the friendship between Greece and the United States **has never been stronger**. We have reached a very special moment in our bilateral relationship, and we want to continue to build on this momentum. Greece and the United States will continue to profit from **strengthening ties between our people, businesses, and governments**, which will also benefit Europe and the wider Mediterranean and Balkan regions”. 



event, Turkey didn’t cease its provocative action. With the only result to show how inadequate is today the EU military capacity in the case of deep crisis.

In the meantime, the Turkish armed forces put in being a set of other provocations, around the Greek Imia islands (with the clear goal of questioning the Treaties that define Greek and Cypriot EEZs) and in the area of Edirne, with armored and mechanized troops maneuvers close to the Greek borders, as well as the arrest and the long imprisonment of two Greek officers in the Greek-Turkish borders.

The latest “episode” which is unfolding, is Turkey’s plan to send the exploration vessel Deepsea Metro II in the Cypriot EEZ. It is, almost, certain that it will be escorted by Turkish warships, with Cyprus unable to do anything to stop it.

“Big Boys” rules

Furthermore, two more events deepen the risk of area instability, investments and supplies security:

- The Heritage Fund, a PE fund incorporated by China and Turkey is now active in the area. The Chinese delegation is made of 58 giant state run companies. The most significant fact is that the Chinese front company is Caricoil. China “enters eyes” in the Cypriot reserves through Turkey.
- Russian and Chinese are building up a joint company to bid on Saudi Aramco IPO in the framework to the PetroYuan strategy. One more threat to the energy market’s future as we know it and to European energy security as a downstream consequence.

Should we make the math of the combined result of threats, we have the following astonishing result: TAP, ITGI and East-Med pipelines capacity is 40 Bcm/y. **One third of the Italian annual consumption**. LNG reserves raise this toll to a level that is enough to make Europeans anxious. Anxious but still, **unable to protect their interests outside the NATO umbrella**. NATO and EU are anyway two different organizations with different interests.

The Eastern Mediterranean is becoming one of the top 21st Century “Big Games”, that is about the new energy sources for Europe which is seeking to lessen its dependence from the Russian gas.

The entire European economy and development, relying on extra needed resources, is at stake. Within this framework the sourer cost looks like being at charge of regional Countries, whose investments, stability and security cannot do but a serious security and defense policy.

Natural gas sources in the Levantine Basin and the Eastern Mediterranean are evolving to a “game for Big Boys”. France and the U.S. are the major stakeholders, with Italy following. Having expressed its will not to permit any conflagration in the area, the U.S. is bringing in USS Iwo Zima Task Force to guard the activities in Exxon Mobil’s Block 10, even though it is officially denied.

Is common defense strategy the answer?

The defense of the common interests and spaces is leading the EU Mediterranean and Balkan member-states to arrange an even stronger integration of their respective armies, exploiting both the EU and NATO structures. In the foreseeable future, **the integration of armies and military assets between the EU Countries of the area** will be mandatory, in order to face efficiently any potential future risk, either within the framework of the NATO and/or the EU. The recent ratification of the PESCO agreement is one more step towards the ESDP.

Italy and Greece will play a leading role in this scenario, due to their military capabilities and common interests. Integration can be extended to further Countries belonging to the EU sharing the same interests (Cyprus, Bulgaria, Croatia, Slovenia, Romania, and Malta). Non EU countries of the area should be involved too (Israel, Egypt and Albania), as well as the rest of western Balkan states in the future, **in a strong and solid alliance** multiplying possible benefits and political «weight» in the area.

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Why Greece is the energy hub of the Italian energy security strategy in East Med

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When inhabitants in Rome switch their living room lights on and industrialists in Milan power their industries, they don't even suppose how much of this is linked to Greece and how even more this will be in future. Nor they know that the Eastern Basin of the Mediterranean is home to large Italian investments, in order to secure the next 4 decades of Italian energy supplies.

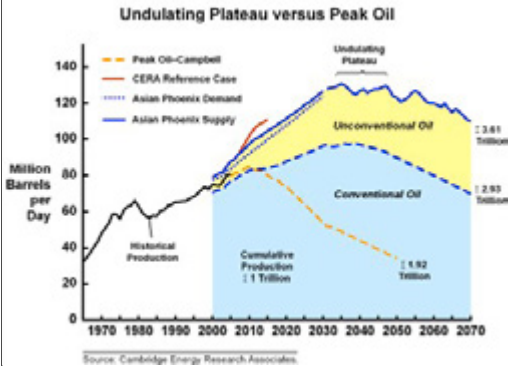
Italy is the third largest economy and second largest industry in the EU. Notwithstanding a successful switch towards renewable energy, the Country still heavily relies on energy import, especially crude oil and natural gas.

According to IEA, in 2020 the daily global oil production is expected to fall to 65 million barrels/day. The amount available for export is forecasted to reach 25 million barrels/day. A quantity that is not enough to satisfy the global demand including the extra 12 million barrels/day of oil that the EU is expected to need. **According to a recent study (Souza, 2010) the Countries that would suffer much will be Italy, Greece, Spain, Portugal and Ireland.**

Furthermore these traditional areas as well as the whole Mediterranean Basin and Europe itself, are currently home to major geopolitical events, complicating the future scenarios and energy supply security.

USGS, IEA and IFP estimations, along with recent exploration and developments show that **the Mediterranean Basin offers a solution to the above threats to the EU economy and security**, thus needing an increase security and defense approach by the EU/NATO Countries.

Italy has its own production of natural gas and crude oil, plus some respectable reserves. Still, this is largely insufficient



TYPE OF RESOURCE	Q.TY	U.M.
NATURAL GAS	16.8	Tcm
CRUDE OIL	7.00	Bbbl
GAS CONDENSATE	6.00	Bbbl

*Source: USGS, IEA, 2016
Resources are calculated for the whole of the Eastern Mediterranean Basin, including Greece

to feed the country's basic needs and its strategic independence. Over the 80% of energy depends on import, making the Italy extremely vulnerable in terms of independency. Geographic origin of supplies clearly shows a problematic distribution, with the greatest share coming from potential crisis areas.

Very recently, on 12 December 2017,

an accidental explosion occurred in a compressing station - valve station in Baumgarten, Austria, 50 km northeast of Vienna, with one fatality and 21 injuries. This particular facility receives Russian natural gas via pipelines from Slovakia and transports it primarily towards Italy, and secondly towards Germany, Hungary, Slovenia and Croatia. The accident occurred during severe cold weather conditions affecting central and northern Europe. The consequences of this supply disruption, which in fact lasted less than 24 hours, were cataclysmic.

The competent Italian minister declared a state of emergency regarding the trading and distribution of natural gas, stating as a matter of fact that **had the TAP already been operational this would have been avoided. Gas prices in Italy almost doubled.** At lower percentages, prices also rose in the rest of Western Europe due to the increase in demand. Prices of other energy commodities, such as Brent oil and coal, also rose, while commodity futures prices for all energy commodities were also significantly affected. Although the disruption in Austria lasted a short time, the consequences were **extremely severe especially for Italy** and secondarily for the other countries. In practice, the need of securing Europe's energy supply and for alternative power sources and routes was once more highlighted.

The Italian strategy for wider Mediterranean Defense & Security Cooperation

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Various sources among which the USGS, the IEA and the IFP, estimate that the Mediterranean basin hosts relevant reserves of both oil and natural gas, able to cover the EU needs for the next 35 years if efficiently exploited.

The estimated reserves in the Eastern Mediterranean are located in four main areas: the Levantine Basin, the Nile Delta Basin, the Nile Cone and Greece (Crete, Herodotus, Corinth and Ionian). These areas include a number of Countries: Egypt, Greece, Cyprus, Israel, Lebanon and Syria. Turkey doesn't look like playing a relevant role in the reserves distribution, due to its limited EEZ.

The Eastern Mediterranean is vital for the Italian interest because:

- hub to Italian interests and investments
- vital export market: double than China, Russia and India together.
- should the area become too unstable, shipping traffic would be redirected from Suez to N. Europe and Italian ports would lose their EU strategic status.



- 1 x CVH Cavour: SAT - C4I - EW - AAW - F35B - CAEW-KRS-COD-CSAR
- 1 x DDG Orizzonte: SAT - ATBM-AAW- A2/AD - EW - ASuW/ASW - Land Attack
- 1 x DL "PPA Full" Class: SAT - ATBM - AAW - EW
- 1 x FFG ASW Fremm Type: SAT - ASW/AsuW - EW
- 1 x FFG General Purpose Fremm Type: SAT - AAW - EW - Land Attack

The Amphibious Group based upon:

- 1 SSK prepositioned for intelligence and protection
- 1 x LHA: SAT-C4I-AAW-EW-F-35B
- 2 x LHD: SAT-EW
- 1 x DDG Orizzonte DG: SAT-ATBM-AAW-A2/AD-EW-ASuW/ASW-Land Attack
- 1 x DL "PPA Full" Class: SAT-ATBM-AAW-EW
- 1 x FFG ASW Fremm Type: SAT - ASW/AsuW - EW

The Air Force will contribute specialized assets according to necessity and distance from bases. Other Army assets can be detached, like 2 platoons of MBTs to strengthen the FPM as needed.

The basic projection tool the Italian Military has foreseen for a rapid overseas operation is called «Overseas Projection Force» (Forza di Proiezione dal Mare - FPM). The FPM is the instrument of first intervention in case of international crisis requiring the protection of Italian citizens, assets, and/or interests overseas. The force is composed of:

A composite Landing Force

- Marines Brigade (Navy) plus the Amphibious Regiment (Army);
- Special Assets (MGS, Artillery, SHORAD, Special Forces, Engineers) and Helicopters (Attack, CAS, TTH, ASH)

The Naval section Escort Group based upon:

- 1 SSK prepositioned for intelligence and protection

- Greece and Cyprus host the most of the Italian assets in the area and Greece is pivoting the most of resources via four (4) gas pipelines, which will cover up to the 30% of the Italian natural gas consumption, one electricity 500 MW power connector, 2 LNG stations.

The need for enhanced security in the region

Several ongoing issues threaten the exploration, production, and transit of energy resources in the Eastern Mediterranean, especially the security environment, territorial disputes, and the macroeconomic climate. Recent developments, together with the uncertain future of the wider area (Balkans, Middle East, North Africa), suggest the need for enhanced security. Ongoing territorial disputes between several eastern Mediterranean countries, especially the Turkey-Greece-Cyprus disputes over their respective EEZs, **could hinder exploration and development in the region**, particularly in the offshore Levant Basin. Disputes over maritime boundaries jeopardize joint development of potential resources in the area and could limit cooperation over potential export options.

In order to secure its vital interests the Italian Government has created a **new comprehensive strategy: the «Wider Mediterranean» (Mediterraneo Allargato)**. The focus is securing all the main routes, sources, and national interests in a wide area, from the Atlantic to the Pacific Ocean.

The Italian Strategy foresees a number of possible scenarios, including symmetric and non-symmetric operations such as:

- Counterterrorism and counter piracy
- PK and PE
- Recovery and protection of Italian overseas infrastructures
- Seaways patrolling and shipping escort missions

The strategy is centered on a progressive increase in military spending from a mere 1.04% of GDP a few years ago, to present 1.42% and the target of the 2% to be reached in a decade. Fiscal Year 2018 has seen this trend further consolidation with a +4% in military budget and a significant +15% in new investment & acquisition programs (investments &



acquisition total today the 30% of the total budget). Currently the Budget has reached the amount of about 25 Bn€. To this amount an extra 17 Bn€ in 10 years must be added as “special funds” to supporting all hi-tech programs, including the «Space», «Net Centric Forces» and the «Future Soldier» Programs.

The scope is to set a **technological hedge** over potential regional threats, with a **full range of force multipliers available**. Another pillar of this strategy

military exercises. Italy is also rumoured to join Greece, Cyprus and Egypt to strengthen furthermore the control over the Eastern Mediterranean.

Would it be possible to **further integrate the armies of the respective countries**, in order to protect more efficiently and rapidly their many common interests and investments? This would need **more firm political decisions**, as well as a full strategic and military study, however we can highlight some potential advantages:



is the participation of the Italian Armed Forces to International PK and PE missions, always including «combat» status. All personnel are 100% professional soldiers.

The future

In the last years the Italian forces are working strictly in cooperation with respective partners (NATO, EU, Israel), in order to increase defense capacity of common interests and assets. In particular Italy, Greece, Cyprus and Israel, show an increasing level of joint operations and

- Integration of existing best assets and elimination of double or redundant units, with cost savings and freed resources for other activities or investments
- Standardization in time of systems and weaponry with generation of economies of scale and scope (acquisition, maintenance, training)
- More efficient coordination of activities of common interest and intelligence
- Integration of know-how and expertise in specific fields and operations
- Integration of respective military industries and R&D



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Who we are

The question of European energy security has brought attention to the strategic significance of South Eastern Europe and Mediterranean regions as sources, as well as transport hub, of natural gas and other forms of energy.

The Eastern Mediterranean Basin and the Balkans will be key regions of Europe's energy security, with USGS and IEA estimations showing confirmed and potential O&G reserves able to satisfy growing EU energy demand over the next 35 years at least.

The estimated reserves in the Eastern Mediterranean are located in four main areas: the Levantine Basin, the Nile Delta Basin, the Nile Cone and Greece (Crete, Herodotus, Corinth and Ionian). These areas include a number of Countries: Egypt, Greece, Cyprus, Israel, Lebanon and Syria. Turkey doesn't look like playing a

relevant role in the reserves distribution, due to its limited EEZ, however it seems that has not accepted this fact and tries to enforce its revisionist view.

The area is subject to threats that could create further instability and risk for the security of infrastructures and further investments. Several ongoing issues threaten the exploration, production, and transit of energy resources to Europe, especially the security environment, territorial disputes, and the macroeconomic climate. Recent developments, together with the uncertain future of the wider area (Balkans, Middle East, North Africa), suggest the need for enhanced security. Ongoing territorial disputes between several eastern Mediterranean countries, especially the Turkey-Greece-Cyprus disputes over their respective EEZs, could hinder exploration and development in the region,

particularly in the offshore Levant Basin. These disputes over maritime boundaries, jeopardize joint development of potential resources in the area and could limit cooperation over potential export options.

South Eastern Mediterranean Energy & Defense is a unique Newsletter

dedicated to Energy and Defense developments in the region which aims to:

1. Publish news, analyses and reports, as well as the official views of major stakeholders and key opinion leaders, in order to illustrate the geopolitical parameters that affect the European Union's Southern Gas Corridor strategy, which aspires to diversify the Union's natural gas import sources.
2. To evaluate and present various options, strategies and measures from the European Union and/or its member-states, who are affected primarily, as well as the major stakeholders in the region, and their investments, stability and security cannot do but a serious energy security and defense policy.

We are a team of experts in the energy and defense industries who, together with the team of "Flight & Space" (ΙΙΤΗΣΗ & ΔΙΑΣΤΗΜΑ) magazine*, shall present you in-depth reports and analyses, focusing on the "who is who" and "whys" behind the major events.

South Eastern Mediterranean Energy & Defense

*"Flight & Space" (ΙΙΤΗΣΗ & ΔΙΑΣΤΗΜΑ) is the leading and most authoritative publication in the Defense and Geostrategy fields in Greece and Cyprus, published monthly since 1979, which covers the fields of Civil and Military Aviation, Defense, Land and Naval Forces, Diplomacy and Geopolitics, Aviation and Military History, Space and Astronomy, as well as all related Technologies, through an array of specialized and highly esteemed Greek and International contributors.

ENI's comeback! The company hasn't abandoned its plans in Cyprus' EEZ

ENI's Chief Exploration Officer Mr. Bertelli, said that the construction of new pipelines, especially towards Europe, demand mass investments, political acceptance from various countries and larger amounts of gas to secure the long-term demand.

He stated that the ENI-Total consortium is examining the future prospects of Blocks 6 and 11 of Cyprus' EEZ, as well as the commercial exploitation of "Calypso" site. He stressed the importance of the drilling results at "Onisiforos" and "Calypso" targets, which showed that the model of Egyptian "Zor" site is expanding in the Cypriot EEZ.

"Calypso's" natural gas is of fine quality (99% methane), while the rocks are very good too, two very important indications for the future commercial exploitation of the site.

He, also, said that Exxon Mobil's forthcoming drilling in Block 10 later in the year,

will be another test of "Zor's" model. At the same time, ENI-Total consortium is evaluating the prospects for future drillings in Blocks 6 and 11.

Mr. Bertelli further stated that if the findings at "Calypso" are evaluated positively, ENI should develop the appropriate options for its commercial development. Referring to these options he said that the company is giving priority to its present liquidation terminal at Egypt, and it's capability to transfer the liquidated gas to Europe and elsewhere in the Eastern Mediterranean. 

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