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Letter From The Editor

Few MENA countries have so far eluded the threat of partition caused by religious, historical, ethnical and economic rivalries. Their borders, a result of competition between 19th and 20th century colonial powers for the exploitation of rich oil reserves, can no longer sweep under the carpet deep-rooted problems.

Who opened Pandora's box and allowed various groups, small and large, to attack their neighbours, fostering a general state of chaos and why? Is this a result of the road to energy self-sufficiency of certain major powers or is it that democracy and equality can only be established with time and sacrifices?

Previously, colonialists ensured low-cost energy resources through military interventions and colonialist arrangements. The difference between then and now is that a military invasion is no longer considered the best option, as seen in Syria, where competing local and regional players are creating the same effect themselves.

Is it too risky and premature to speculate that recent hydrocarbon discoveries in the Eastern Mediterranean Sea and neighbouring West, will bring upon more countries, similar tragedies in the future?

George Hatziioannou
Editor

A New Old Trend: Divide Et Impera?

We are witnessing at new geopolitical phenomena, the breakup of some well established countries which have the misfortune to be located in unstable zones, unstable largely due to disputes around hydrocarbon resources and proven reserves or, alternatively, because they happen to be close to strategic oil and gas transit routes. These countries seem to be dismembered along religious, ethnical, cultural, historical and even tribal lines, often dismembered forcefully just as the ancient Romans practiced it. The concept behind this policy amounts to the assumption that smaller state entities are easier to control while their energy potential is easier to access.

Such events within this geopolitical tendency occur in different regions, MENA, Africa and even Ukraine, which is still playing a crucial role in securing transit of Russian natural gas to Europe. In this three-part article we offer a preliminary analysis of this policy trend in the Arab world, in the territories populated by the Kurds, and in Sudan.

Reshaping And Reformatting The Middle East

The ongoing civil war in Syria has opened the Pandora box of old conflicts involving old players in regional games. Who is fighting whom? Who wants what? To bring the war to a victorious end? What kind of an end could that be? Total annihilation of all the opponents? Will the one who genuinely wants peace to be restored stand up please? Is there an option for a quick political settlement? Who will comply with the terms of the negotiated peace or interim peace settlement? And will there be some parties that will not respect the agreement?

The events are evolving rapidly.

Presently, in Syria we see four big actors. First, the loyal forces around Presidential Bashar Assad rooted in the Alawite branch of the Shiites and supported by some other religious minorities. They are clustered mostly in Damascus and along the Mediterranean coast; they rely on the government armed forces, once the mightiest in the region, except the Israeli Tsahal. Second, there are the Kurds located in the North who are de facto autonomous starting from 2012 and maintaining links with their ethnic kin in Iraq and Turkey. The ideology of the Kurds is based not so much on religion but on nationalism.

So far, Western politicians and Western media used to present the opposition to the regime as a sort of 'united front' willfully neglecting their stark differences. Today, it is no more possible to sustain such an illusion. In Syria, there is no homogeneous opposition but a conglomerate of a variety of antigovernment Sunni paramilitary formations, some with political wings. The only common denominator is their absolutized commitment to the Sunni branch of Islam. Their internal controversies are so blatant that recently they started open hostilities which immediately developed an inertia engulfing more and more militant fractions.

The Sunnite armed groups and groupings are more or less in control of the central part of the country, with each of them having its strongholds and foreign sponsors. Without the external financial and military support it would be next to impossible for them to keep on fighting for so long. There are the West-sponsored and Gulf-Kingdoms-sponsored armies. Yet, the most known, the Free Syrian Army, for the moment has lost the military momentum. The armed groupings generously supported by Saudi Arabia and Qatar retain military capability but are engaged in a tug-of-war among themselves, reflecting the intensified rivalry between their sponsors giving orders from in Riyadh and Doha.

The Saudis are betting on the Islamic Front which is formed of hardcore fundamentalists, and made up of brigades listing some 60.000 fighters with combat experience gained in Iraq, Afghanistan and Chechnya. At the moment, the Islamic Front has its strongholds in Raqqa and along the border with Turkey. They do not hesitate to use terror tactics against their Sunnite rivals. Media reports claim the Islamic Front made military gains in Idlib and Aleppo zones which had been previously controlled by jihadists from al-Qaeda affiliated Islamic Sate of Iraq and Levant, a group comprised of 10.000-15.000 guerillas, mostly foreign mercenaries.

The Islamic Front is emerging as the leading rebel army, and now they are seeking international acceptance. The United States is in process of establishing direct contacts with the Islamists from the Front and attempt to convince Saudi Arabia to bring them in line and make them parties to political games. These attempts may end in fiasco because some brigades, e.g. Ahar al-Cham, Soqour al-Cham, Liwa al-Tawhid and some others, are not keen to receive (or give) orders. They are relatively autonomous and often unruly: their commanders are not always able to force their fighters to obey commands.

It is necessary to take into consideration the third major Sunnite force, the Front al-Nosra, also ideological affiliates to al-Qaeda. However, they have Syrian roots and tend to pursue a local agenda, not pushing forward the concepts of radical Islam. One UN diplomat on condition of anonymity called al-Nosra “al-Qaeda which is trying to adapt to realities.”

It does not make sense to speculate on the outcome of the civil war and the chances of a political settlement. It is enough to highlight the main parties involved in the Syrian war to understand that the conflict is a perfect reflection of the complexities of the regional quagmire.

Finally, what is “Syria”? Similar to other states in the region, Syria is an artificial creation put together at the end of World War I through the maneuvers of British and French diplomacy. In 1916, in the process of “dismembering” the former Ottoman Empire the two European powers elaborated a secret deal called after the two diplomats who hammered it out, Mark Sykes and François Georges-Picot. The two have drawn the borders of the newly molded states often ignoring religious, tribal and other factors of distinction.

For almost a century that new political geography withstood all hazards being glued and backed up by local rulers. Presently, the Sykes-Picot model is subject to storms and shocks. The first blow came in the form of the Iraqi invasion by the US troops. The second blow was the Arab Spring which is now culminating in the civil war in Syria. Old dividing lines and enmity reemerged exacerbated by modern extermination technologies. The region witnesses not only classical standoffs between the Sunnis and the Shiites but confrontation between tribes, sects, nations. Some old alliances are revitalized, and old scores claimed unsettled.

Assessing the evolution of the Syrian civil war, it is evident there can be no guarantee that once war is substituted by some kind of peace the country will be preserved as a unified state entity and within its previous borders.

The case of Libya is an example of the threat of a breakup into two or even three territories, just like the case of Yemen where the North and the South are looking in opposite directions, not to mention the fractious Iraq.

An American scholar from the United States Institute of Peace and the Wilson Center, Robin Wright, published a study on the perspectives of “reshaping” the North Africa and Middle East region. His scenario supposes that after the finalization of the Arab Spring processes new states will emerge. Here are some of the scholar’s main conclusions:

- Syria will be split into three parts, with the Alawites holding the Mediterranean belt, with the Sunnis in the center and the Kurds in the North;
- Libya could be slashed into three territories as well, following the traditional tribal areas: Tripoli and the Western sea coast, Benghazi and the Eastern coast and, possible, the desert Fezzan region;
- Yemen in pregnant with separatism of the South which enjoyed independence for decades. The North of that poorest Arab country could gravitate towards the ultra rich Saudi Arabia hoping for some kind of federation model;
- Iraq is on the verge of Balkanization. Kurds, Arab Sunnis and Shiites are all considering the options of setting up their own statehood (the Kurds are the closest to achieving this goal), but they face the intricate challenge of apportioning the mineral resources.

- Finally, Saudi Arabia is also in the risk zone despite its affluence and sustainable development. "The kingdom seems physically secured in glass high-rises and eight-lane highways", writes Robin Wright, but it still has disparate cultures, distinct tribal identities and tensions between a Sunni majority and a Shiite minority, notably in the oil-rich east."

The key players in the MENA game are confined only to local population, local ideology or local rulers. This is not an ordinary region. It's an oil and gas rich domain. Markets are nervous and harbor concerns about stability which is a must for secure hydrocarbon flows. What if major political and business actors decide it would be advantageous to break some countries in the region into smaller territorial entities which are easier to control and thus guarantee uninterrupted oil and gas deliveries to consumers?

China Gets Dragged Into Proxy Energy Wars

After five weeks of heavy fighting a truce was struck in South Sudan, an independent state since 2011 with Juba as capital city. Forces of President Salva Kiir and Vice-President Riek Machar have signed a document in the Ethiopian capital, Addis-Ababa, leaving behind estimated 10 thousand dead and 500 thousand refugees (according to International Crisis Group data). This was a temporary settlement of a new conflict within the youngest state in Africa. But does it matter globally? Yes, it does.

For outsiders, it is quite difficult to understand the cause of the war which started with a failed coup led by the Vice-President against the President. One can assume that the explication lies in tribal or religious contradictions, water or land disputes. Indeed, this is true, yet only partially. The previous protracted war within Soudan (1983-2005) between its Northern Muslims-populated part and non-Muslims in the South had a religious and tribal background: it was a fight for pastures and water resources in the context of progressing desertification.

This internal conflict had peculiar consequences for the global energy environment. When the war started and the place became insecure, Western, mostly American oil companies stopped prospecting in that promising area. At the time there were many other attractive oil-rich regions. For years the Sudanese conflict was a local one, with no interest displayed by international actors.

Things changes when China and other developing economies started to search for resources outside its borders. They found a way to launch oil exploration, production and export despite tense internal circumstances and public unrest in Sudan. The Chinese who became net oil importers since 1993 were the most successful in this part of Africa, although they did not enjoy exclusivity.

Western powers realized what had happened too late, when oil derricks were already pumping, pipelines were transporting oil to the Red Sea coast, at Port Sudan, and tankers bound to Asia were being loaded with huge amounts of Sudanese fuel. Then the international mass media started to play up stories about Darfur and other conflict affected regions of Sudan, reporting about the sufferings of displaced people and committed atrocities which they previously completely disregarded. The Government in Khartoum, led by Islamist President, Omar Hassan al-Bashir, immediately became an international pariah, accused of sheltering Islamic radicals. Nevertheless, China never abandoned its support to the Sudanese regime, although preferred not to challenge openly the West and its policies in the region. Beijing has invested in Sudan $20 billion. It was then that the West-brokered deal split the country, once of the biggest in Africa, into two halves.

In the global energy context, the new environment became more complex. The Sudanese oil reserves (75-80%) were located in South Sudan, but the transportation facilities passed through Sudan proper. The two countries seemed inseparably linked by oil and money interest, and it could serve as an anchor for regional stability despite continuing local controversies. Losing a part of oil revenues in the autumn of 2013 generated turmoil in Khartoum ("*Oil Rich Sudan Hit By Popular Unrest: Minor Episode or Trend", EIRA, Volume 1, Issue 6, 2013*) provoked by an end to petrol subsidies for the population.

In the past both countries attempted to impose their rule on local oil business. In 2012, the production was stopped over a dispute about royalties. It ended when Khartoum and Juba realized that they were both loosing from that confrontation and started to cooperate. China also tried to establish good links with President Salva Kiir and promised him another $8 billion of investments.

That configuration of balanced interests seemed to work out fine until the recent eruption of violence in South Sudan, focused on securing political power. The turbulences were triggered by an old rivalry between Salva Kiir (Dinka tribe), historically linked with the US, and Riek Machar (Nuer tribe), who were number one and number two in the new state hierarchy. The roots of rivalry go deep into the war of Southerners against Khartoum.

In the 1990s, Riek Machar disaffiliated from the independent fighter's movement and allied himself with the central government of Sudan. Then, before the political settlement in mid 2000s Machar joined once again the so called Sudan People's Liberation Movement, the actual ruling party in South Sudan. He explained it by accusing the President of trying to concentrate all the power in his hands while getting rid of competitors. In 2012, Salva Kiir played the anti-corruption card pointing his finger at the local officials who have presumably stolen up to $4 billion of the government's oil revenues. It amounts to one-third of the state's oil revenues from 2005 to 2011.

The internal showdown was concentrated in oil rich provinces. Their capitals, Bentiu and especially Malakal changed hands several times. Heavy fighting was concentrated in the city of Bor. From that point rebels wanted to march against the capital, Juba, located 200 km to the South. The city with a population of one million people was basically destroyed.

The recent episode in the protracted war has also an oil dimension. The stakes are high since it relates to the future of the Sudanese potentially huge local hydrocarbon reserves.

China was importing from South Sudan 14 million barrels during the first 10 months of 2013, 14% up if compared with 2012. It amounted only to 1% of the oil consumption of China, but Beijing's strategy is to lay its hands on all possible resources throughout the world and it makes the Chinese very sensitive to attempts to squeeze them out from any energy rich region. China had the same nasty experience in Iraq (2003) and recently in Libya right after having heavily invested in the oil sector in both countries. In South Sudan, China was awarded concessions for oil fields; it spares the trouble of negotiating the purchase of oil.

In 2013, South Sudan was producing 220-240 thousand barrels/day (470 thousand before 2011), 200 thousand in the Malakal region. Most of the volumes, two-thirds, were shipped to China. Its foreign minister, Wang Yi, flew to Africa to find a solution to the erupted conflict. This is a remarkable precedent: such a move is unusual for Chinese diplomacy which prefers not to get exposed in the "first line" and opts for a behind the scene maneuvering.

Neighbouring Kenya and Uganda also participated in the initiatives aimed to put an end to the war in Eastern Africa. Kenyan government hopes to see a pipeline arriving from South Sudan to its coast which would generate revenues from transit fees. Uganda has some oil reserves at the border with South Sudan and hopes to start production. Both countries fear that instability in South Sudan could push investors away from the region and they will seek business opportunities in a more predictable environment.

There is a likelihood that Chinese involvement contributed to changes in the allegiances and alliances. Khartoum and Salva Kiir are interested in preserving the actual state of play in oil production and transportation, and this stance suits Beijing. Riek Machar has lost the support of his former Muslim allies and now may be receiving the support of the United States.

During the heavy fighting, the rebel spokespersons explained to journalists that their strategy was to establish control over main oil fields. They hoped it would facilitate the task of bringing down the president. In fact, they did not succeed. Fighting in oil rich zones did not halt the production and export flows continued uninterrupted. The Sudanese officials boasted about growing revenues from oil transit fees despite the fighting. Actually, that oil could have originated not from the current production but from the past reserves procured by Juba to prevent them falling into rebels' hands. Anyway, the cash flows were preserved and it benefited both Sudan and South Sudan.

Will the shaky truce remain intact? Nobody knows for sure. The main conclusion is that China can no longer afford to stay away from the local proxy wars. Hot and cold wars in and around Sudan can be viewed as probably the first case when China was forced to get drawn into the US-led power game over control of global energy resources.

What Is Cooking In Kurdish Territories? Independence, Is It?

It's a banality to state that Kurds are one of the biggest victims of partitions of old empires after World War I. As a result, this nation has been living for a century in different countries, mainly Turkey, Syria, Iraq and Iran.

Living separately placed Kurds into very different environment, with incompatible political experience and growth potential. The plight of the Kurds under the current developments in the region will have a huge consequence for the energy flows.

It should be noted that Kurds in Iran are in some way cut from the general trend due to the strength of the Iranian state which maintains full control of everything within its borders. In the future things may change, and the "Kurds' factor" could be used to pressure Tehran, even if Iran and the West, especially the US formally normalize relations.

The three other main Kurd populated zones are evolving in different ways. Kurds are a nation in its own right; they are neither Arabs nor Turks or Iranians, they have their own language and culture, and they are Sunni Muslims.

The most established and institutionalized Kurd government system exists in Northern Iraq. Kurd Regional Government (KRG) has experience in local rule since the early 1990s, when that territory was *de facto* independent from Saddam Hussein's Iraq. Its independence was enhanced by the US enforced no-fly zone.

After the US invasion in 2003 and the reorganization of the Iraqi state, the Kurdish North was granted autonomy. Now it relies on an efficient armed forces *(peshmergah)*, huge oil revenues and self consistent administration with not more than formal ties to the central Shiite-led Government. The security environment here is much better than in Arab populated Iraq. However, the KRG has two unsolved disputes with Bagdad. There are zones with mixed, Kurd and Arab population in some oil rich areas, and the sharing model for oil fields there is yet to be agreed upon.

Bagdad is keen to impose centralized governance for the oil and gas industry with only 25% of its revenues going to local authorities. The Kurds disagree and strike oil and gas deals independently, keeping most of the revenues. They find allies not only among small foreign companies but also energy majors, ExxonMobil, Chevron, Total, Gazprom Neft, etc.

Noteworthy, Ankara is very actively intruding into Northern Iraq despite the time-honored (or rather time-dishonored) problems with Kurds within Turkey itself. Turkey has established excellent working relations with the KRG. Turks are extending oil deals. In January 2014, oil started to be pumped from the Tak-Tak field, south of Erbil, to the Kurd capital in Iraq, connected, in Fichkabour, to the big pipeline Kirkouk-Ceyhan.

So far, this pipeline, with a capacity of 1.5 million barrels/day is half empty due to production problems. Kurdish fields are estimated to be able to produce at the initial stage 300,000 barrels/day. The KRG estimates that it possesses hydrocarbon reserves of 45 billion barrels of oil and 3 to 6 trillion cubic meters of natural gas. It plans to export 3 million barrels/day to Turkey by 2019.

That situation puts the KRG in a strong position: it has the potential to become the core of a future possible independent "Kurdistan" but to achieve this cherishing goal it has to preserve good relations with Turkey, its main regional oil partner bound to turn into a regional energy hub.

Kurds in Turkey are passing through more daring times. Almost a year ago there was a lot of wishful thinking claiming that the Turkish Government and the Kurdish Workers Party (PKK), the main independence fighter force, had finally reached an agreement and were about to settle the issue. So far, the so called Imrali process failed to be finalized and bring eternal peace.

The stumbling block is found in the different approach to the core problem. For Ankara, it's a public security problem, for PKK it's a political issue. The Government presented its reform package, elaborated in a unilateral way. Kurds found it disappointing. Their expectations were not honored, especially the claim to use and learn the Kurdish language. Although some ridiculous restrictions were eliminated, like the ban to use letters W, Q and X, which are present in the Kurdish but absent in the Turkish language. It was just the beginning, with no constitutional guarantees for ensuring the Kurdish identity, political and cultural, and also no promise to liberate jailed Kurd political activists. At the same time the PKK started to fully implement its commitments, withdrawing its armed militia from the Turkish territory, although this process was halted last fall. To wrap it up, peace has not returned to Eastern Turkey where most local Kurds live.

Syrian Kurds are trapped in the civil war. Their areas of compact residence are located in the North, and local Kurds call it Rojava or Western Kurdistan. Now they are autonomous although they find themselves in an uncomfortable position between the Islamic radicals supported by Gulf petro monarchies on the one side and the suspicious Turkey on the other side. The local mainstream political force, the Democratic Union Party (PYD) is allied to PKK, and Ankara is nervous about the perspective of them joining forces. At the same time, Rojava is not an anti-Assad stronghold and maintains good contacts with KRG in North Iraq. All that creates a complicated situation with conflicting and mutually exclusive interests with Turkey looking like a possible loser.

Syrian Kurds are the weakest link in the Kurdish equation. They do not have experience, either political or military, and no money.

So the three Kurdish groups are drastically different. Basically, Kurds' independent state would change the political design of the whole region, but its emergence would be damaging to the interests of many actors, Turkey would be hurt in particular. At the same time, Western energy majors are definitely interested in establishing control over only of one of these Kurdish territories that is the Iraqi Kurdistan blessed with huge oil and gas reserves. Other locations with predominantly Kurdish population have no appeal due to lack of natural resources. However, should oil exporting routes pass through these territories, it would elevate the hypothetic Kurdistan into a key player in the energy domain.

For the moment, a least on the official level the US and Western Europe position themselves as champions of maintaining the territorial integrity of Iraq and Syria, but would it last forever? Would preserving Iraq and Syria with the Kurdish enclaves be more attractive to the West than breaking it into minor states which would be more than happy to serve as purveyors of hydrocarbons and in this way ensure their formal independence and wellbeing?

Lebanon Dreams Of Energy Boom Amid Political Turmoil

The bomb attack carried out on January 21, 2014 by the Al Nusra Front in Lebanon, which is next of kin of the same name Al Qaida-linked group in neighbouring Syria, was targeting the Shiites. It elevated the hostilities to new heights and perpetuated the cycle of political violence.

No matter how sinister it may sound, this terrorist act was hardly a surprise for Lebanon which is historically torn apart by sectarian enmity. What came as an unexpected move was the sudden statement just a couple of days later by former premier Sa'ad Hariri, exiled in France since 2011. Hariri announced he was ready (and eager?) to form a new government with Hezbollah to pull out of a 10-months stalemate after the resignation of Prime Minister Najeeb Mikati in March last year.

The heresy and at the same time the statesmanship maturity of the initiative by the prominent Sunni politician, so much apparent to his brothers in faith, is revealed in at least three facts not to be overlooked in the appraisal.

First of all, Sa'ad Hariri is the son of former Prime Minister Rafik Hariri who was murdered by a car bomb in 2005. The assassination was allegedly undertaken by Hezbollah, and currently in the Hague Sa'ad Hariri is participating in a trial in absentia of four Hezbollah members charged with his father's killing. The Shiite influential organization with strong positions on the ground in Lebanon denies the accusations, and the final verdict has not been spelled out yet.

Second, in 2011 Sa'ad Hariri was ousted from power by Hezbollah's political bloc, and, since then, for security reasons he was shuttling between France and Saudi Arabia. Several of his close associates were assassinated in the last two years with Hezbollah believed to be the most likely culprit. On 27 December 2013, a car bomb explosion in Beirut killed former Minister Mohammad Chatah who was an adviser to Sa'ad Hariri and a member of the March 14 movement which is vehemently against Syrian government and in favor of the Sunni insurgents.

Third, the "mother of all battles" waged in Syria between the Sunnis and the Shiites exacerbated the animosity of the two communities in Lebanon. While the March 14 coalition supports the opposition in the Syrian civil war, Hezbollah sent its paramilitary platoons to help Shiite-backed President Bashar Al Assad.

However, irrespective of the outcome of the court hearings in the Hague, and dismissing the involvement in the proxy war in Syria, Sa'ad Hariri sent an olive branch to the arch-rivals. He pledged to be ready to share power with Hezbollah and expressed belief they can come to an acceptable compromise.

The need for a compromise became more apparent since the Syrian hostilities started to ruin the already shaky stability in Lebanon and present a grave threat to its survival as a unified state. All previous attempts to bridge ideological and confessional discrepancies between main actors turned to be futile.

The solid proof of Sa'ad Hariri's serious intentions to find a solution to the political deadlock was his subsequent appeal to Samir Geagea, his ally coming from the Christian camp, to reconsider his opposition to forming a government with Hezbollah and accept the urgent need to preserve Lebanon as a state.

Mr. Hariri made it clear that there were preconditions to this strange marriage: "I will not accept (that Hezbollah hold) the veto-wielding (power)" in the future cabinet. He also made it clear that power sharing will not give Hezbollah a legal clout to continue its involvement in the civil strife in Syria. Hariri said he wanted Lebanon to remain neutral at a time of detrimental regional calamities.

The timing of Hariri's bold move can be attributed to the first albeit not very fruitful contacts in Geneva between the warring parties in Syria, and the rapprochement between the United States and Iran (see also "Iran: the brave new giant the West would love to nurture", EIRA Newsletter Volume 2 Issue 1, 2014).

A no less essential motive is the need to prop up the economy, budget (burdened with a weighty debt) and growth prospects by putting in place a legal framework for the exploration of the hydrocarbon resources in the Lebanese offshore sector of the East Mediterranean. In order to kick-off the exploratory works, the Lebanese authorities must adopt and enact two pieces of legislation in the form of decrees. The first decree must enshrine the delimitation of the offshore blocks; the second should specify the model of the production-sharing agreement.

It is clear to Lebanese policy makers of all ideological feathers that in the absence of these two legal prerequisites foreign investors would be too hesitant to pursue a consistent policy of financial and organizational involvement.

Meanwhile, the stakes for the state of Lebanon and for the energy majors alike could be high enough. Preliminary estimations by the British geological surveyor Spectrum claim up to 25 trillion cubic feet of gas and from 440 million to 660 million barrels of oil are secured in the Lebanese corner of the Levant basin.

Last year, the lure of the hydrocarbon riches has already brought 52 major oil and gas companies to the pre-qualification round with 46 passing the contest. As announced recently, the first bidding round for the exploration of offshore fields is due to be opened on April 10, 2014. The standard timeline define the exploration phase to last five years with the production lifetime of 25 years.

However, after the two decrees are signed and sealed, another impediment might severely curtail the room for maneuver for Lebanon, the on-going dispute with Israel which claims rights to the same maritime area of 854 square kilometers.

On 21 December 2013, the Lebanese caretaker Foreign Minister Adnan Mansour accused Israel of planning to unilaterally demarcate its maritime border with Lebanon. Mansour said it was a direct violation of International Law and of the 1982 United Nations Convention on the Law of the Sea (UNCLOS).

The UNCLOS allocates a 200 mile offshore area terms "Exclusive Economic Zone" for exploiting maritime reserves, and determines that if another sea-faring nation is located less than 400 nautical miles away a mutually acceptable border line should be drawn through negotiations. This is not an option for Lebanon and Israel because the two states are formally in a state of war and cannot sit down at the negotiation table to discuss anything before they settle down their hostilities.

Besides, there is another aggravating factor: Israel is not a signatory of UNCLOS which leaves the two sides without any legal guidelines and legal solid ground.

All in all, the residue of sectarian violence, confessional animosity, political fractious environment, legal uncertainties and technical challenges amount to a formidable Molotov cocktail threatening to blow attempts by Sa'ad Hariri and similar pragmatic leaders to breathe life into the weakened and embattled country.

Iranian Oil: Prêt A Manger

Tehran ready to storm global markets

How strong are wishful thinking illusions among the Iranian high-ranking mullahs born out of the interim six-month agreement which limited the controversial nuclear program and mitigated the international sanctions regime? Judging by the fidgety activities of Iranian top officials that coincided with the partial lifting of legal curbs on 20 January, Tehran clerical elite is consumed with anticipation of a major breakthrough in relations with the West and the USA in particular.

"The implementation of Geneva deal… will bring with it great economic achievements for Iran in all fields, especially the attraction of giant oil companies," Jalil Jafari, head of the Foreign Investment Committee in the Iranian parliament, professed without giving any details.

Concurrently, addressing the World Economic Forum in Davos, Iranian President Hassan Rouhani attempted to sound convincing to lure foreign investors to his country by hinting Iran might soon turn into a promising emerging market. "I see the status of Iran pursuing policies of moderation, prudence and hope in the future global economy," his upbeat statement articulated. "Iran's economy has the potential to be among the world's top 10 in the next three decades."

The expectations of President Rouhani have an upside and a downside. True enough, in terms of GDP Iranian economy is the second largest in the region. The place is home to the world's fourth largest oil reserves and second largest natural gas reserves. The abundance of mineral resources coupled with the workforce potential of an almost 80-million nation serve as essential prerequisites for a successful growth strategy. Yet, the immediate impediments to this trade and economy acceleration scenario are no less formidable.

For the start, the actual damage to the Iranian economy caused by the sanctions has not been properly calculated by anyone with access to genuine proved data. Experts assume that direct losses are around \$80 billion (15% of annual GDP) with \$100 billion frozen in foreign bank accounts with access denied to Iranians. Then, how outdated and obsolete are oil and gas extracting technologies and standards of this crucial for Iran revenues-earning industry? Invigorating the production tempo would require a significant amount of investment but where might it come from?

The answer, or at least a hint of the new thinking mode in Tehran was provided by President Rouhani and his oil minister Bijan Zanganeh at an ice-breaking meeting with CEOs of energy majors in Davos. There, at the summit gathering of the formal and informal rulers, the Iranians pledged an almost 'most favoured nation' regime for those Western companies who would brave the odds and enter the Iranian market, bringing along advanced technology and money.

In fact, what the two representatives of the seemingly moderate and mild wing of the political class in Tehran signaled was their readiness to 'open up' and proceed with rapprochement with the West triggered off by the Geneva P5-plus-1deal.

But will the "call of the mild" be enough to assure the international oil majors, at least from the West, that the investment climate in Iran was freed from risks? Pretty doubtful. Some strategic risks, now placed in shadows, still remain.

First of all, the patching up of the great quarrel with the West will be sustained only if the Iranian clerics profit substantially and, more importantly, personally.

There are some signs that this might be the case, as reported by Reuters (*Khamenei's business empire gains from Iran sanctions relief,* 22 January, 2014). It came to pass that the Supreme Leader Ayatollah Ali Khamenei is in control of a diversified multi-faceted business empire called Setad with a fair share of investments in Iran's petrochemical industry. Although the official spokesperson of Setad vehemently denied it saying "Our investment... in the petrochemical sector is minimal." Even if the involvement is "minimal", Setad will definitely capitalize on the easing of sanctions and the permit to resume exports.

Once again, if the top mullahs have assumed control of some lucrative sectors of the economy, which looks like the most probable outcome of the "consolidation" of elites in a closed society subject to pressure from the outside, then their personal greed ("Greed is good" as postulated by Gordon Gekko in the movie *Wall Street*) will make them more susceptible to the lure of big money coming in the form of foreign investments. This will add fuel to the rapprochement with the West.

To some extent, the USA after the Geneva deal seems to be pursuing more subtle tactics grounded in the time-honored Western foreign policy named "positive engagement" based on betting on the human basic instincts. Should the mullahs fall prey to their own gluttony and voracity rooted in the newly acquired wealth, they will be no more in the position to command moral authority with the public.

More relevant to the interests of the West, the mullahs will be vulnerable to manipulation to the same extent as the Ukrainian oligarchs who stashed away their dirty money in Western bank accounts for fear of punishment for crimes at home. "Opening Iran to exposure to the world will, in the medium term, so dramatically erode the power of the clerics in Iran that they will have difficulty in retaining power, at least in the way they now exercise it," analyst Gregory Copley noted.

The second factor to be included into the geopolitical equation is the deeply-rooted distrust by the Iranian political and business elite of the West in general. They may be ready for mutually beneficial interaction but the legacy of the Islamic Revolution and the Cold war waged by Iran against the West, and vice versa, will set limits to both sides cooperating fully and in good faith. Besides, Iran is a dainty prize for other global actors too, like China and Russia.

While the USA was evidently behind the decision to hold the next round of negotiations with Iran in the P5-plus-1format in New York, it was Moscow who was the first to jump on the band wagon. Iran and Russia conducted talks on an antique trade model (barter deal) to swap oil for goods. If signed, the deal would create a flow of Russian consumer commodities to Iran to the tune of $1.5 billion per month in exchange for oil. US President Obama spokesman Jay Carney immediately said Washington had "serious concerns" about the deal.

Moreover, it is hardly conceivable that Tehran will place all bets on the prospect of becoming a partner to the United States. Given the previous overtures by Beijing (it once promised to invest $40 billion into the Iranian energy sector), and the looming confrontation between China and the US over access to energy resources, it is unlikely that Tehran will not play this card to its full advantage. Noteworthy, Iran has not withdrawn from the waiting list of the Shanghai Cooperation Organization (SCO) hoping to become a member of an alliance on the rise where China has been calling the shots.

To wrap it up: first, if sanctions' lifting does not create a powerful stimulus for further amelioration of tension with the West for the ayatollahs in their personal capacity, and second, if other international actors, predominantly China do not seize the opportunity to forge an alliance with Iran to gain access to its hydrocarbon riches, then Western energy majors will not have the fundamental motives to plunge headlong into the unfriendly waters of the Iranian sector of the Persian gulf.

In the meantime, the wind seems to blow into the sails of the embattled ship called Iran. The economy is on the move with unemployment slightly diluted and trade in non-oil goods between Iran and more than 150 other countries filing the coffers. In the time span since the start of the Iranian year on 21 March (9 months' statistics), this trade has accounted for $62.5 billion while export of petrochemical products brought another $8.1 billion, according to OPEC data.

Will the arrival of Iranian oil to the world market en masse become a gamer changer? There are two conflicting views: no and yes. The naysayers claim that after the supply disruptions in 2013 due, in particular, to the embargo on Iranian oil, more than 2 million barrels per day were taken out of the overall balance, but the global markets adjusted to the "new realities" and made up for the deficit. In other words, there is no demand for extra Iranian oil.

The other school of thought insists that Asian dragons are on the rebound, as well as the economy of the United States while the heralded North American oil glut due to shale production will not last long. It amounts to a simple verdict: there is certainly a niche, wide enough, for the Iranian black gold substance.

The latter forecast fuels optimism in Tehran which believes that despite all the setbacks its oil industry survived the embargo and is still making a slow but steady progress. Iranian leadership strongly believes that its oil reserves is a commodity *prêt a manger*, and its mere size and quality is an appealing property no responsible and business-oriented entity, like energy majors, can ignore.

Greece To Invigorate EU Single Energy Market

The current energy security hurdles burdening debt-ridden Greece can be matched only by the teasing opportunities of gaining a solid ground in relative energy self-sufficiency. No matter how uncertain these opportunities are for a country still basically dependent on energy imports.

The prerequisites for Greece acquiring a higher degree of energy security amount to a combination of positive trends within the EU energy industry and depend on the consistent efforts by governments, energy companies, investors, and regulators.

This concept seems to be at the back of the mind of Greece since it apparently wants to capitalize on its EU Presidency, assumed on 1 January. Greek Energy Minister Ioannis Maniatis made clear the Greek government intends to promote a more assertive energy policy on the national level and within the EU.

“The Greek Presidency in the EU has three chief aims: The completion of the internal energy and gas market, the 2015 goal of interconnecting all member states through gas pipelines and the establishment of the framework for the 2015 international agreement on climate change which will be focused also on the expansion of the use of natural gas,” Minister Maniatis announced lately.

Athens places much emphasis on widening the network of pipelines through the construction of interconnectors. In particular, Greece is interested in forging links between various gasification projects in the Western Balkans with the Ionian-Adriatic pipeline. Besides, the long awaited Interconnector Greece-Bulgaria (IGB) could fit well into the overall concept of creating flexibility of supply.

According to official pronouncements, Greece is keen to push forward the long-cherished projects of the European Commission of unifying Central and Eastern Europe through interconnectors involving Hungary, Serbia, Croatia, Romania and Moldova. The expansion of reverse flow infrastructure coupled with the spread of gas hubs will mold the emerging homogenized EU internal energy market.

The second pillar of energy security in South East and South Europe, according to statements by Greek officials, is the Trans Adriatic Pipeline (TAP) linked to Trans-Anatolian Pipeline (TANAP). TAP will run across Greece and Albania before reaching Italy after traversing the Adriatic Sea and deliver 10 billion cubic meters per year of Azeri gas to European markets.

The third pillar of SEE energy security is the prospect of the eventual untapping of the hydrocarbon resources in the offshore zones of the Eastern Mediterranean. Despite recent confusion over the downgraded estimates of the findings, this resource base might still have a powerful impact on the amelioration of the economic crisis and, potentially even pull out Greece out of its foreign debt’s abyss.

Politicians in Athens show strong commitment to the EU concept of “Southern Corridor” and readiness to lobby its implementation in a wider context, meaning to complement Azeri gas with hydrocarbon from East Med offshore fields, irrespective of its origin, be it Israeli or Cypriot gas. It will perfectly fall within the framework of the EU strategy of diversification of energy sources, aimed to a large extent at mitigating the current dependence on Russian gas supplies.

For the moment Greece cannot free itself from the dominant position of Gazprom who provides the bulwark of gas supplies (total of 2.62 bcm in 2013). Greece keeps paying one of the highest prices for Gazprom’s gas in Europe in absence of a viable alternative, in terms of volumes. Nevertheless, Charis Sachinis, the CEO of DEPA, recently denied media allegations that Gazprom was supplying gas to Turkey at a lower price than to Greece.

However, on the last day of January, it came to pass, the Greek Public Gas Corporation (DEPA) managed to strike a deal amending the price formula which will bring down the actual price for Russian gas.

Greece will assume a stronger bargaining position when Azeri gas will start flowing along the TANAP-TAP, although one has to wait since the project is due for completion only in 2019. Another bargaining chip is the wider use of the LNG unit at Revithoussa, if Cyprus decides in favour of building a liquefaction plant to have enhanced flexibility for exports.

Another valuable asset would be the underground gas storage unit in the South Kavala gas field with chances of capitalizing on its geographical proximity to TAP.

Whether or not these plans are built on sand or on solid rock, depends on the business rationale. The epic fail of Nabucco, labelled "Pipeline Opera", is an indication of the need to make ones' homework diligently.

"If European energy security remains currently dependent upon Russia today, the quiet close to the "pipeline opera" demonstrates that large-scale investment decisions may be dictated by political objectives, but implementation will ultimately be susceptible to economic feasibility," wrote William Hudec for International Security Observer (ISO).

Greece faces formidable challenges in its righteous ambition to invigorate the EU single energy market but the alternative is much worse.

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