

Energy International Risk Assessment

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Letter From The Editor



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Politics or economics? Which is the decisive factor in the world of energy? The relevancy of the question is supported by a plethora of recent developments in this business sphere overtly overburdened by political overtones.

In the wake of a widespread and most likely premature, euphoria, the Greek Foreign Ministry commissioned a research paper to assess the viability of East Mediterranean hydrocarbon production which should, ideally, be done by no-nonsense energy managers, technologists and accountants.

Hopefully, economics are coming back to the forefront. Political considerations in Greece around the much advertised energy pillar, the Greek-Cypriot-Israeli strategic cooperation on East Mediterranean offshore gas fields truly need to be backed by solid technological, economic and commercial calculations.

Otherwise policy-makers will continue to believe themselves when they claim that fair distribution of the still theoretical revenues from East Med hydrocarbon riches will “force” the two communities on the Island of Cyprus to abandon enmity and embrace amity. It could happen, again in theory, but only after all the parties involved put money where their mouth is and start digging and drilling.

Meanwhile, Israel looks reluctant to plunge headlong into the construction of a costly floating LNG plant or a pipeline through Turkey to reach the European markets with its newly found natural gas deposits. Local customers in the vicinity (Jordan, Palestine, Egypt, etc.) offer a better chance of monetizing the gas bonanza.

Once again, money counts with energy producers and investors more than anything, and discounts purely political schemes. Further North, business rationale seems to have triumphed over politics when two EU "traitors", Austria and Bulgaria, opted for cooperation with Gazprom on South Stream against the unfavourable background of sanctions against Russia.

Theory is often a self-delusion while practice is always a moment of truth. This idea comes out of the risk analysis we provide you in the current issue of EIRA.

George Hatzioannou
Editor

Adriatic Sea: To Drill Or Not To Drill?

After Croatia opened the season and invited oil and gas companies to prospect for hydrocarbons in its waters, business interest to untap these potential reserves is steadily growing (see “Croatian Oil Industry Doomed For Stagnation”, EIRA Volume 2 Issue 4, 2014).

Unexpectedly, the activity around Croatian offshore riches has generated a heated discussion on the other side of the Adriatic Sea, in Italy. Former Prime Minister and former President of the European Commission, Romano Prodi, called on his compatriots to start looking for oil and gas in the Italian part of the basin.

“Don’t let Croatia steal our oil”, Prodi wrote in *Il Messaggero* newspaper.

Mr. Prodi pointed his finger at the local communities along the Adriatic coast that raise objections to oil wells in their backyard or in front of their clean beaches. A movement “No triv” (“No drill”) was set up and it is now expanding its influence and activities. Municipalities, governors, political parties, and even bishops are supporting the ban for hydrocarbon exploration and production in the region. So far, the public’s resentment is deferring decisions: no requests for exploration were filed and no permits given.

The industry is putting forward a variety of “pro” arguments, emphasizing that oil production on new fields in the Adriatic Sea could amount to a weighty contribution to national energy security. It will also resonate with calls from Brussels to limit imports from Russia and mitigates the risks due to falling hydrocarbon production in North Africa.

Mr. Prodi is promoting a new argument. He states that the oil fields (in fact, they are more natural gas than oil) are supposedly located approximately in the middle of the Adriatic, with some of them found in Italian waters and others in the Croatian sector of this rather narrow sea. It means that if, or rather when Croatia starts offshore extraction and production all by itself in

its waters, the hydrocarbons would be ‘sucked’ from the Italian sector as well. Consequently, the Italian hydrocarbon reserves would be siphoned to Croatia which will enjoy a double advantage of having both the resources and the revenues. In the long run, if Italy does not join the Adriatic hydrocarbon rush, it will preside over the depletion of its rightful hydrocarbon riches.

It should be noted that most of the drilling wells are to be located near the border line. By 2019, there could be 19 producing platforms on the Croatian side.

“The deposits are located in territorial waters of both countries”, stated the former Italian Prime Minister. “If we do not change our strategic approach, the resource will be appropriated only by Croatia.”

At the same time, Italy and Croatia will inevitably share the potential ecological risks, even if Rome abstains from offshore drilling.

Adriatic hydrocarbon resources, certainly, will not solve the energy problems facing Italy. Indigenous production covers roughly 10% of Italian energy demand but theoretically it could double to match record output of 1996.

Foreign Minister of Croatia, Ivan Vrdoliar, announced that under 12,000 km² of Croatian sea surface some 3 billion barrels of oil wait to be extracted.

Bulgaria And Austria Deviate From EU Stance On South Stream

In the last days of May, the European Commission (EC) mounted pressure on Bulgaria for breaching, at least partially, the EU rules of the internal energy market having signed an agreement on the Gazprom-spearheaded South Stream gas pipeline project and planning to launch construction works on the Bulgarian onshore segment of the pipeline in mid July.

The EC President José Manuel Barroso warned Bulgarian Prime Minister Plamen Oresharski

that the Commission has the intention “to act” against the Balkan country which does not conform to the concept of a European united energy policy. As an asymmetrical response to the warning, Mr. Oresharski assured Brussels that his government is all too eager to accommodate the remarks and comments by the EC experts on the proposed amendments to the Bulgarian energy legislation prior to the second reading in the parliament.

In recent years, the EC has made a strong case for mitigating the risks of dependence on Russian natural gas supplies but this consistent painstaking drive to assert the freedom of choice of energy purveyors for the community has been undermined in April and May by two member states, Austria and Bulgaria. The ‘renegade’ states opted for involvement in Gazprom-sponsored South Stream.

In the context of the EU sanctions against Russia amid the Ukrainian crisis, the EC final decision on the South Stream was put on hold. The European Parliament called on member states to prevent the emergence of another export pipeline which would be translated into further dependence of Europe on Russian gas.

Now it has been disclosed that Vienna and Sofia are out of step with the EU objective. First, the Austrian energy major OMV which used to be the locomotive of the EU-backed Nabucco project, approached Gazprom on its own will and proposed to re-route South Stream pipeline and bring it instead of Tarvisio in Italy to Baumgarten, the Austrian gas hub, as it was envisaged in the original scenario.

The dissidents in OMV showed blatant neglect to the basic principle of what is intended to become a common energy policy of the European Union coupled with the goal of creating a functioning common energy market. The EU repeatedly stated that South Stream does not comply with its regulations governing crucial issues such as infrastructure ownership (“unbundling” rules of the Third Energy Package) and pipeline access (“third party access”, TPA).

The loophole used by OMV and Gazprom to the still preliminary agreement was the reference to a bilateral agreement signed between Austria and Russia which allegedly has a higher legal status than the EU legislation. This argument must have stimulated Poland to come up with a proposal, articulated in a “Non-paper addressing the EU’s energy dependency challenges”, to have the European Commission directly involved in intergovernmental (IGA) energy negotiations “not limited to giving an opinion on the final draft of the agreement” and with the task of conducting “both ex-ante and ex-post evaluation” in order to “minimize possibility of an IGA’s non-conformity with EU law.”

So far, this kind of EC involvement has not become a standard procedure, and the IGAs remain the stumbling block in asserting the legal supremacy of the EU legislation and, in particular, of the Third Energy Package. Until then, some member states contribute, albeit involuntary, to the segmentation of the EU market.

Lately, Dragomir Stoynev, Bulgarian Minister of Economy and Energy, reiterated Sofia’s support for South Stream project which theoretically, as claimed by its promoters, would enhance and not reduce security of supply. To justify the revival of South Stream which was put on ice by the previous government, Stoynev claimed the inclusion of Bulgaria in the creation of this infrastructure would benefit this relatively poor Balkan country. The estimated advantages amount to 5.000 new jobs created around the pipeline’s construction and an additional 2% to the GDP after the launch in 2015 due to transit fees and flexible gas deliveries.

Attempting to dampen criticism from Brussels, the Bulgarian Prime Minister Plamen Oresharski called South Stream a “European project” and accentuated the economic and commercial gains it would bring to his country.

To put it on the record, the Bulgarian onshore segment of the South Stream pipeline, if the project materializes which is a risky bet today, would stretch 541 kilometers, including 362 kilometers of looping. Gas will be propelled by

three compressor stations in Varna, Lozen and Rasovo with 300 megawatts of total capacity, yet to be built. Besides, the network will be complemented by a 59-kilometer pipeline connecting South Stream to the existing gas pipeline system, which can source gas to customers in Bulgaria, Turkey, Greece and F.Y.R. Macedonia.

However, the flirting of Oresharski's cabinet with the project, undertaken by Gazprom-led consortium of energy companies, runs counter to the official stance of other political parties in Bulgaria. The centre-right party GERB which is the largest opposition party, although guardedly supports the project, demands full and unequivocal compliance with European law and the Third Energy Package.

The Reformist Block, a coalition of right-wing parties opposed to the present government, continues a formidable campaign against South Stream explaining the multiple dangers linked to the pipeline network. The Reformers focus on over-dependence on Russian gas, environmental risks, meager economic benefits, etc.

The citizens of the Black Sea port Varna challenged the Environmental Impact Assessment (EIA) of South Stream's onshore segment in Bulgaria. Their first attempt was to no avail: Sofia Administrative Court (SAC) dismissed the citizen's request to annul the EIA, defining this expertise "correct and complete". The claimants demanded a second assessment, as they considered the first to be insufficient but the demand was once again dismissed by the court. Now, the position of the South Stream opponents has been strengthened by the intervention of the European Commission at the highest level.

The supporters of South Stream, in their turn, criticize the EC for applying double standards. The leader of the Socialist party Sergey Stanishev invoked the support rendered by the EU to Nord Stream pipeline to transport Russian gas across the Baltic Sea to Germany. Nord Stream was granted the TEN-E status by the EU in 2006 which served as the seal of approval and admission that it was a "project of European

interest". Basically, it means that the EU gives preference for the "rich North" over the "poor South", claimed Mr. Stanishev.

The opponents of South Stream within the political class face an uphill battle since, according to Gallup International, their stance is backed by 17% while 52% of Bulgarian citizens believe it would be a bonus rather than a burden. Nevertheless, the battle is not yet over and the EC remains the main stakeholder in shaping the EU energy policy. Sometimes, however, it encounters setbacks as in the case of OMV switching sides and backing the formerly rival project which used to compete with the Austria and EU-backed Nabucco pipeline.

As a matter of fact, sources in Berlin revealed that Germany is going to profit from South Stream ending not in Italy but in Austria. On the one hand, BASF, the largest chemical company in Germany and globally, is a partner in South Stream through its gas supply subsidiary Wintershall. On the other hand, Baumgarten gas hub together with underground storage gas facilities in Germany and Austria can serve as an aggregator and dispenser of energy enhancing flexibility of supply.

In any way, the deviation of Austria and Bulgaria from the EC mapped out energy guidelines is yet another proof that in the absence of a chartered common EU energy policy, obligatory for all member states, South Stream proponents are capitalizing on the divisions and difference of interests inside the EU.

Israel And Palestine: Move On Without Moving?

Nine months of Sisyphus-style efforts produced no tangible results. Over and over again the US diplomacy was pushing Israel and the Palestinians to a peace settlement but to no avail. The US Secretary of State John Kerry focused on this mammoth task but failed, as did all his predecessors. In fact, any success would have been a surprise, unlike the actual failure which all took for granted.

The reason for entrenched skepticism was the unexpected *finale* of the negotiations overshadowed by the news that the reputedly intransigent rivals, Palestine Liberation Organization (PLO) and Hamas, sealed a compromise deal recomposing a kind of Palestinian unity.

The reunification of PLO with Hamas gave an excellent pretext to Israeli Prime Minister, Binyamin Netanyahu, to declare it impossible to negotiate a peace settlement under the new circumstances. Mr. Netanyahu cancelled talks although preserved a working dialogue with the Palestinian National Administration (PNA) on routine matters, mainly on security issues. As a paradox, one of the main security challenges is Hamas which is listed as a terrorist organization. It is worth reminding that Hamas does not recognize the right of Israel to exist and remains true to the goal of destroying the Jewish state.

Actually, Mr. Netanyahu, known for his hawkish stance, was not too keen to forge a peace deal with the Palestinians and did his best to undermine the US Secretary of State sponsored negotiation process. His tactic was simple and efficient: at every crucial and critical moment his Government announced the launch of construction of new settlements on the West Bank which automatically triggered off Palestinian protests.

Now Mr. Netanyahu may consider the moment opportune to bury the olive branch for good. Indeed, he was taken by surprise on the news of the *modus vivendi* arrangement. Still, this is not the first time that the rivals bury the hatchet of war. All previous attempts ended in shambles. Nevertheless, now the two groups decided to set up a temporary Government compiled of 'independent' personalities, whatever that means in Palestine. This does not exclude or preclude future discords. In fact, PNA President, Mahmud Abbas has already declared that under his leadership PNA will pursue PLO's policy and not Hamas' guidelines, especially on the key issue of negotiations with the Jewish state.

The differences in approach are acute and many. Counting from an internal feud in 2007, the two

Palestinian political organizations, PLO and Hamas were leading the territories under their control to different destinations. PLO and its supreme authority, PNA were controlling the West Bank under Israeli occupation and maintained a dialogue with Israel. Simultaneously, they were making attempts to promote and push the Palestinian cause through international bodies, first of all through the United Nations. At the end of the day, Mr. Abbas does not have much to boast of in terms of negotiations with Israel because it did not put to a halt the colonization of the West Bank through more and more Jewish settlements.

Hamas has been pulling the reigns in the Gaza strip due to an original arrangement blessed by the US which later on distanced itself for this enclave due to its swift radicalization. The Gaza strip, home to 1.7 million Palestinians, was effectively isolated. However, the Hamas regime survived unscathed all through the ravaging Arab Spring despite a quickly changing state of play. Muslim Brotherhood of Egypt, the ideological godfather of Hamas, lost its political credentials; it lost power, was banned by the new authorities, this leaving the Gaza leadership standing alone facing a multitude of problems.

This is the regional and geopolitical context of the recent attempt to restore the Palestinian unity. Both actors, the nationalist OLP and the Islamist Hamas, were in a win-win position from the start. According to media reports, Mr. Abbas, already met Hamas leader, Khaled Mechaal, in Qatar, where he resides in exile after having escaped from Damascus. He changed his residence in 2011, after the civil war erupted in Syria. Qatar is the main sponsor of Muslim Brotherhood and of some Islamist organizations who are fighting Bashar al-Assad's regime in Syria.

The Israeli Government right now has used the game-changer pretext to tear apart the US diplomatic efforts to hammer out a peace deal. From a strategic perspective, the rapprochement between PLO and Hamas opens a window of opportunity for a crucial settlement of the Palestinian issue, does it not? Besides, there is a most probable offer to be put on the table:

provide both Palestinian territories with pipeline natural gas from the recently discovered Israeli offshore fields. The cementing substance would be gas and the promise of fairly (there is a possibility at least to aim for this goal) shared new prosperity.

It would not solve all the problems plaguing the Holy Land and its vicinity, but it would be a step towards pacifying the most bellicose protagonists of the decades-long drama, creating pockets of mutual interest and establishing business bonds which tend to withstand high pressure of wrath and prejudice.

Where does it leave the US as the co-sponsor of the Middle East peace settlement? Mr. Kerry's leaked pronouncements reveal his frustration about the Israeli toughened stance. At a closed-door international forum in Washington the US Secretary of State allowed himself to utter totally politically incorrect words: The Jewish state could become an "apartheid state" without reaching peace with the Palestinians. Mr. Kerry's statement was disclosed by a neo-conservative media outlet, The Daily Beast, and the US Secretary of State was obliged to apologize and to 'clarify' his position calling that expose by the 'beast' a partisan political attack. Despite this damage control move, at this stage the American involvement in the Israeli-Palestinian dialogue could be considered frozen.

Nigeria: Poor North Vs Rich South Produced Boko Haram

Global media seems to be surprised to discover a big African country, Nigeria, which came into the limelight due to a tragic story of the abduction of 200 girls from a school by a radical Islamist movement, Boko Haram.

Nigeria is country deserving proper attention and scrutiny for the scale of its achievements and problems alike. It is the No.1 country in Africa in terms of population (160 million) and economic potential (with a GDP of \$509 billion compared to \$354 billion in South Africa, coming No.2 in the hierarchy). More importantly, Nigeria is the main oil producer in Africa with a production

just a bit less than 2 million barrels/day and proven reserves of up to 37.2 billion barrels.

At the same time, Nigeria is to a considerable extent a non-country, a non-state. Local commentators label the Nigerian political system *democracy*. It is a federation of 36 States. National institutions are inherently weak, and this is one of the explanations why the abducted girls could not be freed in a quiet and efficient manner. The population is composed of almost 250 ethnic groups, half Christians, in the South, and half Muslims, in the North. Oil production gives the illusion of a wealthy welfare state but the reality is dismally the opposite. Political instability, corruption, absence of personal security, social system in a collapse (60% of the population lives on less than \$2 a day); these are some of the most evident dimensions of Nigerian state of affairs.

Now the African oil giant has one more headache: Boko Haram. What is behind that strange name which some linguists translate from Pidjin dialect as "Western Education Prohibited"?

At the beginning, somewhere around the year 2000, Boko Haram was one of the Islamic movements asserting itself in the social domain due to the de facto absence of credible local political parties. Its founder and spiritual leader was Ustaz Muhammad Yusuf. He also passed his name to the first version of the organization: Yusufia. He was 30 years of age at that time. He started preaching in his native village in Borno State, one of the poorest in the country. Yusuf reaped his laurels with the public pronouncing passionate speeches and calling for a strict application of the Sharia law. Yusuf took inspiration from Saudi preachers of the radical Wahhabi trend. Nota bene: Yusuf studied Muslim theology at the Medina University in Saudi Arabia ending up with combining firm religious beliefs with somewhat bizarre ideas. For example, he condemned elections as such and called on his followers to boycott certain type of "Western" food like milk in tetra pack; he was driving a Mercedes but did not believe those who claim that Earth is round.

Yusuf's growing popularity was used by some local strongmen, who realized that Sharia law

can be used in the North as a leverage to pressure central authorities which at that time was handed by the military led by General Sani Abacha to a civilian President, Olusegun Obasanjo. That tactic turned out to be a mistake. Yusuf stoke an alliance with Ali Moddu Sheriff, leader of the capital of Borno, Maiduguri. Once reelected, he started a military operation against Yusuf, killing some 800 of his supporters, including Yusuf himself.

This episode was a turning point for Boko Haram. The organization founded a Shura, a kind of ruling council of reputed persons. Its new leader was Abubakar Shekau who still maintains this position. Shekau set up his power base around the city of Kano and, starting from 2011, launches a full-scale paramilitary campaign including direct assaults, kidnappings, and bombings.

Shekau is a strange and resolute guy. Those who contested him were killed unless they escaped, joining a concurrent organization, Ansaru. In rare footage, experts discovered, he must be using some look-alike. Shekau defines himself as a preacher of salafist kind and an intellectual but it is very probable that he does not know the meaning of these words. His goals are not articulated, yet what is clear is that he declared war against all Christians, that is a war against half of his country.

Boko Haram is becoming a geopolitical problem in this strategic, in terms of oil production, country. Secret services from the US, UK, France and even China are mobilized to help find the abducted girls. But the real problem lies elsewhere. Simplistic radical predication is well received in the poor Nigerian North. The 12 border States are the less developed, and Borno is the poorest: 3/4 of the population here lives below poverty threshold, and 80% of them are illiterate.

The central Government has long contributed to the disparity. Most of oil revenues go to the South leaving the poor North to go down the drain leaving local population and local elites frustrated at least and at most angry and eager for revenge. It is hardly surprising that under

such dire conditions Boko Haram easily finds supporters and financial backing. Electricity lights up this region for a few hours a day while Nigeria (rich South) is recorded in global statistics as the second biggest consumer of champagne in the world.

The reason of disparity is apparent: old colonial habits did not die but were preserved by global and local energy majors who reap the benefits of Nigerian oil bonanza, excite energy market appetite, but also spread corruption, solidify bad governance and poverty. This explosive mix of evil is the main driver of the popularity of Boko Haram and similar extremist organizations who skillfully position themselves as defenders of the poor, sort of a collective Robin Hood.

In that context, radical movements go international. There are disturbing signals that Boko Haram has established connections with Al-Shabab militias in Somalia and AIQM in Mali, moving towards an Islamist network. Similar developments take place in neighboring Cameroon where Italian citizens were kidnapped, and even in the politically stable Kenya.

One more factor should be duly noted. The dangerous evolution in Africa follows a rapid and simultaneous expansion of two universal religions: Islam and Catholicism. In Africa, they are expanding faster than in their core territories where they fall into stagnation or even experience regress, like in Latin America due to proselytism of assertive Protestant sects. It is a scene setting for more violent clashes in the future.

As for Boko Haram aggressive hostilities in Nigeria with no containment strategy in view so far, it invokes the specter of partition of the oil-rich country with unpredictable consequences for world energy market.

Libya: Second Civil War Three Years After Gaddafi

In May, the oil-rich desert territory still known as Libya, often referred to as the 'best ever failed state', has generously contributed information

fodder for political analysts pondering over the general rules of transforming a dictatorship into democracy in the context of MENA, the number one turbulent region.

The decision of the General National Congress, the Libyan parliament put in place three years ago when NATO-backed rebellion toppled Muammar Gaddafi, to approve the Muslim Brotherhood-linked Ahmed Maiteeq as the new prime minister was a clear sign of defiance. Defiance of whom? The parliament dominated by Islamists showed its resolution to fight back a new contender for the vacant position of the nation's savior, General Hiftar (sometimes written Heftar or Haftar) who now heads a spreading revolt uniting a peculiar assortment of dissidents unhappy with the post-Gaddafi chaos and human rights violations.

The vote of confidence in the already third consecutive prime minister since March comes in the wake of a most formidable challenge to the status quo. This challenge has a name: Khalifa Hiftar who started anew his ascension to prominence in February with a televised speech, dressed up in a general's uniform with all imposing insignia, by condemning the parliament as ridden with corruption and illegitimate, and calling for its immediate dismissal.

In the following months, General Hiftar rallied supporters, consolidated military units opposed to Islamists, and then in May went to war against the regime.

First, fighters loyal to General Hiftar launched a daring attack in Libya's second city, Benghazi, the birthplace of anti-Gaddafi uprising, against paramilitary formations of Ansar al-Sharia, an Islamic fundamentalist grouping which was classified by the United States as a terrorist organization. It was the most intense urban warfare in three years leaving some 80 people dead and 160 injured.

Second, two days later same militia attempted to storm the parliament in Tripoli which could have ended in a perfect coup d'état given the professional military experience of Hiftar and his entourage. It was an abortive yet a nice try. This

brings us to the inevitable question: who is this guy and what is he after?

The 64-year old Khalifa Hiftar (some claim he is 70) was close to Colonel Gaddafi. A true veteran of the successful plot to overthrow King Idris in 1969. It facilitated his steady rise through the ranks. The moment of truth came when Hiftar was put in charge of the charge against Chad where he was captured by locals assisted by French and US intelligence officers. After he was taken prisoner, Gaddafi betrayed his ally which allegedly made Hiftar an easy target for recruitment by the CIA.

After defection to the U.S., Hiftar settled down in the state of Virginia, not too far from the CIA headquarters in Langley. Reports claim he joined the exile brigade, the Libyan National Army, and led quite a comfortable life in Falls Church until 2007. Later, he enjoyed the luxury of a five-bedroom house in a posh neighborhood in Vienna. According to public record, as reported by Washington Post, Hiftar sold his second home in 2010 for a sum of \$612,000.

Despite suspicions of his CIA-connections, General Hiftar could be in business for himself being described by people who knew him as tough, arrogant and ambitious. He vehemently denies support from abroad and rejects any ties with the U.S. government. Objectively reviewing his past and present, it could be true.

In fact, the brewing up of a new phase of civil war in Libya resembles and even mirrors the struggle for regional primacy between Saudi Arabia and Qatar played on the political grounds of Egypt and, to a certain extent, in Syria. It is not the best kept secret that Saudi Arabia and its ally, the United Arab Emirates are backing Hiftar's attempts to cleanse Libya of Islamic fundamentalists who basically rely on Qatar's sponsorship. The intriguing part is that the intermediary power broker or the middleman to act as patron of Hiftar's anti-Islamist drive seems to be no other than General-to-become-President of Egypt Abdel-Fatah al-Sisi.

At least two indications support the claim of such a strategic "connection": First, Hiftar duplicated

Sisi's tactics by setting up a Supreme Council of the Armed Forces too; second, during the military operation in Benghazi, Hiftar's fighters allegedly (Italian sources report) received air support from Egyptian military helicopters. There is also a collateral proof: General Sisi brought down Muslim Brotherhood president Mohamed Morsi last July, and recently courts passed death verdicts on hundreds of "brothers" who were the darlings of the emirs of Qatar which used to showcase Egypt as a sample of political Islam's triumph.

The forceful regime change in Cairo was the result of a prolonged proxy cold war between Saudi Arabia and Qatar. Now, General Hiftar seems to become the vehicle of sweeping change in Libya for a powerful alliance of regional majors. It is not for nothing that local media likens him to General/President Sisi.

The alleged link with the new regime in Egypt, having Saudi Arabia and UAE standing behind the curtain, makes the CIA connection of Hiftar less valid. The United States managed to establish a working relationship with the Egyptian branch of Muslim Brotherhood and particularly with President Morsi, and the popular revolt against them with the military siding with the people in Tahrir Square did not fit into the American Big Middle East reformatting scenario.

In Libya, Washington was justifiably infuriated when Ansar al-Sharia militia, which is on the payroll of the Libyan government, broke into the U.S. consulate in Benghazi and killed ambassador Chris Stevens and other diplomats. On the one hand, diminishing or even annulling the 'untouchable' status of Islamist militia would be in conformity with the American interests (and naturally in the interests of installing democracy in Libya). On the other hand, the positioning and possible elevation of General Hiftar as a strongman of Libya of the Sisi-archetype, who is fulfilling the agenda mapped out in Riyadh, may not go well with the U.S.

Besides, General Hiftar reportedly has good connections in the eastern province of Cyrenaica with plenty of followers, including business

people involved with upstream oil and gas production and midstream infrastructure facilities which are crucial in maintaining export flows. Since local tribes have effectively blocked sales of oil by besieging sea port terminals, the one who finds a workable compromise with them, pacifies them and ensures a fair distribution of petrodollar revenues, so crucial for the state budget, will have powerful allies to back him in the task of governing an ungovernable country.

For General Hiftar, luring potential allies and followers seems to be on top of the agenda. Supposedly, he manages to consolidate his powerbase, crush the military resistance of the Islamists, and set the stage for peaceful elections. Since he is close to former rebel Prime Minister Mahmoud Jibril, now living in exile in Abu Dhabi, there is a political force to rely upon. Forecasts claim that in the case of free and unrigged elections the Jibril-Hiftar alliance could get 70% of the vote with the Muslim Brotherhood's Justice and Construction party reduced to 14%. But this is exactly what prompts the Islamists to mount a desperate resistance to such a scenario.

The new Prime Minister Ahmed Maiteeq comes from the city-state of Misurata, the stronghold of paramilitary formations aligned with the Islamists in the General National Congress. The local fighters swore to stream into Tripoli to counter Hiftar's militia. Ansar al-Sharia declared the attacks carried out by Hiftar's forces "a war on Islam". The country is bracing for a new round of merciless hostilities.

* * *

Meanwhile, a pipeline 25 km long has been destroyed south of Libya's oil exporting port of As Sidra preventing the transportation of crude from a number of key fields in Dahra, Gialo, Mabruk, Samah, and Waha. The stockpile of crude has reached some 13-14 million barrels. This should be counted against the scaled down production with stands at around 200,000 bpd compared to 1,500,000 bpd at the times of Colonel Gaddafi. The chances of a fast recovery of the oil sector are slim given the new

uncertainties brought by the new round of a full-fledged conflict pitting the anti-Islamists against fundamentalists and highway militias.

Will Gas Help Cyprus Patch Up Dispute With Turkey?

The symbolic blitz-visit by the US Vice President Joe Biden to Cyprus in late May raised hopes on both sides of the great divide between the two communities of Greek Cypriots and Turkish Cypriots. The regional political pundits started to sniff the air to sense what is in the making. Suspicions were abundant.

Mr. Biden even dared to cross the line: he set foot on the territory of the self-proclaimed Turkish Republic of Northern Cyprus (TRNC), which is recognized only by one country in the world, Turkey, and met with its leader Derviş Eroğlu. Aware of the sensitivity of the move, the US Vice President had to reiterate that America still “recognizes the legitimate government of the Republic of Cyprus and my visit and meetings throughout the island will not change that.”

Nevertheless, Özdil Nami, the Minister of Foreign Affairs of the TRNC made an upbeat comment: the “stars are aligned for a solution in Cyprus.” At the same time, the Turkish Foreign Minister Ahmet Davutoğlu characterized Biden’s meeting with TRNC President a “historic step” which serves as an encouragement for what he called “a fair and just settlement” of the Cyprus issue.

Indeed, the outcome of Biden’s visit was largely positive since he managed to convince the leaders of the two communities to meet regularly (twice a month), brought into the picture new actors such as the Chambers of Commerce of the two entities, and activated the religious authorities to initiate inter-faith dialogue.

Many cautious optimists from both sides now expect that some sort of political settlement could be in the pipeline. These aspirations are not dampened even by the admittance that American involvement was largely motivated by the desire to untap the East Mediterranean

offshore gas reserves to lessen dependence of Europe and Turkey on Russian gas. After all, does it really matter if the longest conflict, dating back to 1974, can be effectively resolved to the benefit of the islanders?

Despite all the positive noises around the visit, not much has been achieved. The game-changer could have been the agreement of Greek Cypriots and Turkish Cypriots to cooperate in a confidence-building project of reconstruction of Varosha (Maraş) district, abandoned since 1974 after the Turkish occupation of the North areas. The US allegedly was ready to provide finances but no compromise was found because no one suggested any meaningful concession.

There is no reason to be overtly overoptimistic about cooperation of the Greek and Turkish communities of Cyprus which has been divided for the last 40 years. Recently, most of the hopes were pinned on the assumption that pure economic and commercial rationale would suffice to bring the two cold-warring sides together to jointly develop and share revenues from the East Med hydrocarbons.

These expectations appeared long before proper calculations and fact-based forecasts were made by energy experts. The estimates were rather sobering.

First, it turned out that the actual size of the gas reserves around Cyprus was smaller than originally envisaged. Size does matter because it translates into the ratio of return. No solid investor would commit itself to develop an unknown or meager quantity of gas in an offshore field which demands huge infusion of capital, qualified personnel, application of cutting edge technology and know how.

Second, the original concept of building a floating liquefied natural gas (LNG) plant was discredited when it came to numbers. It is too expensive. One train (liquefaction facilities) LNG plant costs at average \$6 billion. To make it a profitable venture, the Cyprus floating LNG plant should have two or three trains. But who would invest today some \$12 billion into a mere concept knowing about regularly shrinking gas reserves forecasts?

In fact, the best if not the only scenario to make the gas deposits in Cyprus waters a sought-after fruit is to pool resources with the Israelis and channel to Europe the combined flow of hydrocarbons (see “Cyprus reunification talks. Energy matters!”, EIRA, Volume 2, issue 3, 2014). The conceived plan was to strike a deal with Israel to have gas from its huge Leviathan field go through a pipeline to Cyprus, as a transit stop, and further on to Europe. Pooling together Cyprus-Israel gas resources would make it expedient for investors to pour money into the East Med.

However, there is again the issue of ratio of return. The most intricate downside of the matter remains the actual price tag of the final commodity. The solid proof estimate of the costs of Cyprus and even Israeli offshore gas is still non-existent.

When it comes to East Med offshore hydrocarbons, political overtones seem to overshadow the economic basis of any serious business undertaking. The reminder in Bill Clinton’s office (“The economy, stupid”) must be rephrased: “How much, stupid?” It leads to a distressful dichotomy: is it politics first and economics afterwards, or vice versa?

In our times of perceived or objective scarcity of energy resources the yesteryear common wisdom that energy bonds supersede political divisions becomes somewhat obsolete. The interaction of nation-states in the energy field, and especially when it comes to hydrocarbons, is never as smooth as Chinese silk.

The case of East Mediterranean uncovered offshore gas deposits can be written down into textbooks on geopolitical and regional conflicts based on territorial claims, religious animosity, past grievances, incompatibility of national interest. The cost of developing newly found hydrocarbon resources in East Med is definitely one of the major impediments but political stalemate in Cyprus is still the first stumbling block which has to be removed. Greed for gas can hardly be the panacea for healing old wounds and settling a chronic politics-poisoned enmity.

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Open Forum

The International Geopolitics of Straits and Canals

By George Dimitrakopoulos*

The integration of Crimea into Russia brought the geopolitical importance of the Straits of Bosphorus and the Dardanelles back to the international forefront. The crossing of Russian warships from their Crimea base to the Mediterranean sea through the straits has often raised concern in many countries, including the U.S.

The importance of the Dardanelles dates back to ancient times. It is believed that the real reason of the Trojan war was the competition between the Greeks and the Trojans for the control over the straits’ shipping traffic. Herodotus refers to the decision of the Persian king Xerxes invading Greece to build two bridges on the straits in 482 BC, while in 334 BC Alexander the Great crossed them during his campaign against the Persians.

Throughout the Byzantine era the control of the straits was crucial for the defence of Constantinople. The Ottoman Turks occupied the Byzantine capital in 1453 and maintained their control over the straits until the 19th century. Soon after they became a strategic objective for the Russian Empire.

In 1807 the Russians occupied the straits with the help of the British, while in 1853 the French and British fleets made their way through them in order to participate in the Crimean war, as allies of the Ottoman Empire. In 1839 French General Marshal Sult proposed their closure at the prospect of Russian fleet attempting to sail into Mediterranean waters.

Other pivotal milestones are in 1920, when the Treaty of Sèvres demilitarized the straits and 1923, when the Treaty of Lausanne made the free passage of all foreign warships permissible while also restoring Turkish control, albeit to a limited extent. In 1936 the Montreux

Convention gave Turkey the right to limit the passage of naval ships not belonging to Black Sea countries, such as Greece.

Despite it not having signed the Montreux Convention, the U.S. has always shown an interest in the Turkish Straits. In 1946 it even pressured Turkey out of accepting a Soviet request proposing amendments in the Montreux Convention in relation to the seaways. In 1976 and 1979 the U.S., along with other NATO allies, objected to Russian aircraft *Kiev* from crossing the straits, however, in vain: the Convention had been de facto amended so as to make it impossible to prevent the passage of such aircrafts and vessels.

In 1998 China became involved, albeit indirectly. After an international bid a Chinese company took over the construction of the Varyag ship that had begun at the Nikolayev yards in Ukraine in 1985. However, conflicts with Turkey over the right of passage through the straits stood in the way of the completion of the project. The Nikolayev ship yards have direct access to the Black Sea and had been established in 1789 by Russian Prince Grigory Potemkin, initially for the restoration of damaged battleships from the Russian-Turkish war.

The Strait of Hormuz, situated off the coast of Iran also has important international leverage. The Islamic Republic of Iran has often referred to the Hormuz Strait at critical moments, i.e. prior to the conclusion of the latest agreement for its nuclear programme or during speculations of a possible unilateral Israeli air strike when it threatened to block the passageway. Given that the regional balance of power in the Middle East is instilled in Israeli-Iranian relations, attempts on behalf of the latter to maintain control of the strait is also a matter of strategic supremacy. This is corroborated by the international implications of Iranian activity in the Hormuz Strait during the Iraq-Iran war in the 1980's.

Interestingly, Gal Luft, director of the Institute for the Analysis for Global Security compares Iranian threats for the closure of the Hormuz Strait to that of the Dardanelles during the Turkish-Italian war of 1911-12 in a past [article](#) for *Foreign Policy* magazine. The result of the latter

was to refuse the passage of Russian container ships and thousands of tons of wheat rendered useless, seriously damaging the Russian economy.

Within a highly antagonistic international environment where competition for supremacy is rife, it comes as no surprise that during the 21st century international powers are keen to control shipping routes. Other than the Hormuz and Turkish Straits, the U.S., Russia and China -amongst others- also maintain a watchful eye over the Straits of Malacca in the South China Sea. These countries closely monitor the new Chinese-Nicaraguan collaboration for the construction of a new canal given its parallel location to that of Panama, a country which the U.S. holds a special interest in.

Sino-Russian Cooperation Or Another Lost Opportunity For The U.S.?

President Putin's decision to collaborate with China on the construction of the Canal of Nicaragua is without a doubt of high strategic importance.

Russia and China both seem to appreciate the weight Central and South American countries are carrying in general terms as well as within international organisations. It is no coincidence that Russia has already begun negotiations with countries in the region like Venezuela and Nicaragua for the provision of port facilities to service the Russian fleet. Russia has also reinvigorated its relations with Cuba.

Discussions around the construction of the Nicaraguan Canal began at the start of the 19th century, when in 1825 the newly formed Republic of Central America employed specialists for its design and turned to the U.S. in order to find resources to fund the project.

American officials had valued this as an important project. Henry Clay, the U.S. Secretary of State at the time, even put forward a relative proposal to Congress that was rejected in 1826. On August 2 1849 the Nicaraguan government settled an agreement with American businessman Cornelius Vanderbilt to whose company exclusive construction rights were given for the canal within a 12 year timeframe. This

was deterred by the civil war that broke out in Nicaragua and the intervention of William Walker, an American lawyer and journalist with opportunistic tendencies [Walker was responsible for organising private military campaigns in Latin America with the aim of establishing English-speaking colonies under his control. He managed to become President of Nicaragua between 1856 and 1857].

A later, noteworthy, event was in 1850 when the Clayton-Bulwer Treaty was signed by the U.S. and the U.K., with the Canal of Nicaragua as one of the main themes of the agreement.

In 1888 a bill on the construction of the Nicaraguan Canal was introduced in the House of Representatives, which included the recommendation of the U.S. Nicaraguan Canal Commission.

In 1899, in the midst of ongoing negotiations between the U.S. and the then President of Nicaragua, José Santos Zelaya, the U.S. Congress revisited the Spooner bill that favoured American support for the construction of the Panama Canal. The responsible U.S. committee, without denying the importance of the Canal of Nicaragua recommended the purchase of the rights of the French company scheduled to build the Canal of Panama for no more than \$40 million. This purchase was finally concluded in 1904.

Interestingly, in 1898 the chief of the French Canal Syndicate, Philippe Varilla, hired American attorney William Cromwell to lobby the U.S. Congress to build a canal across Panama rather than Nicaragua. In 1902, Cromwell planted an article in *The New York Sun* on the explosion of the Momotombo volcano and the seismic shocks this caused. This sparked great concern in Congress so as to the future and security of the Nicaragua Canal, leading to a vote in favour of the Panama Canal instead.

As a result of this decision the U.S. reached an agreement where American sovereign rights over the canal and a certain zone around it were recognised. This applied up until 1977, when newly elected President Carter signed the Torrijos-Carter Treaties with the then dictator of

Panama, Omar Torrijos under which the U.S. was stripped of its sovereign rights over the Panama Canal Zone and were to be gradually transferred to Panama by 1999. Throughout this time the various agreements had been a source for internal conflict for Panama, when tensions climaxed in 1964 with a wave of anti-American riots, with measurable casualties. Fear of a continuation of these mobilizations and their impact on the canal's operation led the U.S. to negotiate on a new agreement on their stance towards the Panama Canal.

In 1967, the then government led by Lyndon B. Johnson reached an agreement with the government of Panama on the future of the Canal. However, parts of the agreement document were leaked to *The Chicago Tribune* making President Johnson hesitant to put the statement forward for validation from Congress, fearing the impact it would have on the upcoming presidential elections. In 1974, the then Secretary of State Henry Kissinger reached a new and improved agreement with his Panamanian counterpart, Juan Antonio Tack that would finally be signed in 1976 under the Carter administration.

Despite the Panama Canal already being in operation, talks on the construction of the Nicaragua Canal were not taken off the table. In 2006 the then President of Nicaragua, Enrique Bolanios, stated at a western defence summit that Nicaragua were to go through with its construction as Central America were in dire need of two canals. In 2009 Russian President Medvedev expressed national interest in the project.

In 2012 the government of Nicaragua signed an agreement with Hong Kong-based HKND for the construction of its canal. It is widely known that behind this company lies China. According to studies the canal is set to decrease marine traffic and delays in the Panama Canal. Construction works are scheduled to begin in December 2014 with a completion date in 2019. The only alternative option for international navigation is the Strait of Magellan that lies between Chile and Tierra del Fuego; a challenging route given its location, length and strong currents. The Nicaragua Canal will give

Central and South America three sea routes that will connect the Atlantic and Pacific oceans.

Taking into account U.S. emphasis on geopolitics and its interest in Central and South American developments -notwithstanding the sometimes, erroneous policies it implements in the region- its absence from such an important project is bewildering. It is also puzzling that Greece, a country of significant maritime tradition and large-scale commercial shipping power has not shown interest in the canal of Nicaragua. It must ensure its participation in the project before it is too late.

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Exclusive Economic Zones (EEZ): A View From Greece

*** By Ioannis Kolomvakis**

On December 10 1982 the UN Convention on the Law of the Sea was signed in Montego Bay, Jamaica. It currently comprises of 162 States including Cyprus and Greece. Despite there being 137 coastal states today with an established Exclusive Economic Zone (EEZ), Greece is not one of these. This geographical demarcation undoubtedly holds great significance for Greece.

Article 121, paragraph 2 of the 1982 Convention on the Law of the Sea explicitly states that the seazone over which a country has special rights to explore and use marine resources extends to a

maximum distance of 200 nautical miles from its coastal baseline. Where the distance might be less, such as in the case of Greece, the delimitation is then based on the median line. Furthermore, it clearly determines that every country is entitled to an EEZ which follows the same method of delimitation for islands and mainland coasts.

There is no legal backing to the arguments Turkey uses when refusing Greece and Cyprus of their right to delimit their EEZ. In contrast to Turkish claims, the Aegean islands do possess a continental shelf of their own and do not lie on the Anatolian continental shelf simply because an EEZ does not have a geological 'past'. What's more, the Convention abolished the geological concept of the continental shelf altogether, sparing Turkey of yet another argument to use when the issue of Greek-Turkish EEZ arises. Neither can she claim that the Aegean is an enclosed sea and for that reason refuse its delimitation: Turkey herself signed the demarcation of her EEZ in the Black Sea - an enclosed sea - with the 'median line' method, in cooperation with the former Soviet Union, Romania and Bulgaria.

Turkey is one of the four States that have not signed the UN Convention of the Law of the Sea, along with the U.S., Venezuela and Israel. The main reason for it not signing was the Convention's definition of maritime zones, including exclusive economic zones. Despite Turkey having settled its EEZ in the Black Sea and the geopolitical and economic importance of achieving a similar result for Greece in the Aegean, consecutive Greek governments neglected the issue and failed to take action. Although Greece was 'respectful' of Turkey's unwillingness to progress with the Aegean delimitation, there was no sign of Turkish objections standing in the way of Cyprus determining its EEZ with Israel and Egypt.

The Kastellorizo case

The past two Greek governments have been cowardly and reckless when refusing to define the Greek EEZ with Cyprus. The Greek island of Kastellorizo is key to this delimitation. The noteworthy population this island hosts makes its

right to possess an exclusive economic zone unquestionable.

Therefore, Greece must take Kastellorizo into consideration when deciding to go through with an EEZ demarcation with Egypt so as to guarantee maritime borders with Cyprus.

Although there has been much scepticism surrounding the value of exclusive economic zones, it is important to keep in mind that all appeals to the International Court in the Hague are concerned with EEZ as much as with the issue of the continental shelf. Since the signing of the 1982 Convention, the concept of the continental shelf has been outdated by that of the exclusive economic zone. It is for this reason that countries have no plans of delimiting their continental shelf, as i.e. the case of Cyprus and Israel!

Recent discoveries in the Eastern Mediterranean sea prove the existence of large deposits of natural oil and gas in the region. This explains the high mobility in the Aegean and Eastern Mediterranean seas as well as Greece's need to defend its sovereignty.

Greece has nothing to fear when it decides to declare its EEZ in all its seas, in abidance with the provisions of the Law of the Sea. Turkey will most likely refuse to recognise a Greek EEZ just like in the case of Cyprus.

However, despite threats and Turkey's overall antagonistic attitude, Cyprus went on with its explorations and even obtained EU and U.S. approval. It is now up to Ankara to realise that neo-Ottoman aspirations cannot be imposed in today's geopolitics.

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