

Why Europe's energy policy has been a strategic success story

For Europe, it has been a rough year, or perhaps more accurately a rough decade. The terrorist attacks in London, Madrid, and elsewhere have taken a toll, as did the Iraq and Afghanistan wars. But things really got tough beginning with the Great Recession—and its prolonged duration for Europe, including grave economic crises in much of the southern part of the continent. That was followed by Vladimir Putin's aggression against Ukraine, as well as the intensification of the Syrian, Libyan, and Yemeni conflicts with their tragic human consequences, including massive displacement of people and the greatest flow of refugees since World War II. The recent attacks in Paris and Brussels have added to the gloom and fear. This recent history, together with the advent of nationalistic and inward-looking policies in virtually all European Union member states, makes it easy to get despondent—and worry that the entire European project is failing.

To be sure, these are not the best of times. Europe is perceived by some, including Republican presidential candidate Donald Trump, as failing to invest enough in its own security, since NATO allies spend less than 1.4 percent of GDP on their armed forces while the United States spends twice that. However, we must not lose sight of the key structural advantages—and the important policy successes—that have brought Europe where it is today. For example, Europe's recent progress in energy policy has been significant—good not only for economic and energy resilience, but also for NATO's collective handling of the revanchist Russia threat.

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For many years, analysts and policymakers have debated the question of Europe's dependence on natural gas from Russia. Today, this problem is largely solved. Russia provides only one-third of Europe's gas. Importantly, Europe's internal infrastructure for transporting natural gas in all desired directions has improved greatly. So have its available storage options, as well as its possibilities to import alternatives either by pipeline or in the form of liquefied natural gas. As a result, almost all member states are currently well-positioned to withstand even a worst-case scenario.

Indeed, European Commission analyses show that even a multi-month long supply disruption could be addressed, albeit at real economic cost, by diversification and fuel switching. Progress in energy efficiency and renewable energy investments also help. There is more to do to enhance European energy security, but much has been done already. The Europeans have shown that, with ups and downs, they can address energy security themselves.

Already this energy success has contributed to a strategic success. Europe has been heavily criticized for not standing up more firmly to Russia in response to the annexation of Crimea and the conflict in eastern Ukraine. In fact, all EU member states have agreed to keep economic sanctions in place against Moscow. In addition, lifting the sanctions has been firmly attached to the implementation of the Minsk II agreement—and despite recent cracks in European solidarity, we hope that this stance will hold going forward.

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The notion that Europe is weak and dependent on Russian natural gas is a relic from the past. Europe has a strong

regulatory framework with which commercial entities, including Gazprom, have to abide. For those who doubt the impact of these regulations, just ask Google or Microsoft. With the end of so-called destination clauses, natural gas can be re-sold whenever required, as long as sufficient infrastructure is in place. Just last year, Germany re-exported over 30 billion cubic meters of gas, mostly Russian, in particular to Central and Eastern Europe (including Ukraine). That volume exceeds the annual consumption of every European state with the exceptions of Germany, Italy, France, and Britain.

In theory, Europe could even substantially wean itself off Russian gas if need be. To be sure, that would come at a major expense: over 200 billion euros of additional investments over a period of two years or more, and then an annual 35 billion euros, according to some calculations. That will almost surely not happen. But as a way of bounding the worst-case scenario, it is still informative. One might say that Europe has escalation dominance over Russia; the latter needs to export to Europe more than Europe need Russian hydrocarbons.

The internal energy market is not finished, but Europe's energy security has significantly improved in recent years. Even though world markets are currently awash in resources, there is no time for complacency, and European leaders should finish the job, foremost by safeguarding the swift construction of the so-called Projects of Common Interest (key energy infrastructure projects that address the remaining bottlenecks in the EU market), so that the U.S. State Department can take new infrastructure projects like Nord Stream 2 off its priority list, and make energy policy another true European success story. It is already much of the way there, and Western security is the better for it.

Perspectives – Energy Policies in the United States and Europe: Divergence or Convergence?



Are United States and Europe, leaders in the developed world, diverging or converging on national energy policies? The question is important since common policies are more likely to set global standards. But there is no single answer because the answer differs depending on which part of the energy sector one is talking about. Accordingly, I will try to answer the question sector by sector starting with oil and proceeding through natural gas, non-hydro renewable and energy efficiency, and ending with climate change. It should be noted that oil is used almost exclusively in the transportation sector; natural gas for electricity production and heating; and non-hydro renewables for electricity production. Energy efficiency and climate change involve both the transportation and electricity sectors.

Oil

With respect to oil, there is a broad convergence of objectives and a growing convergence of policies to achieve those objectives between the U.S. and Europe. Both are net

oil importers in the aggregate, although individual U.S. states such as Louisiana or European countries such as Norway may be net oil exporters. Both are therefore concerned about protecting themselves from the effects of large price changes and supply disruptions in the short-term and becoming less dependent on foreign suppliers in the long-term. The U.S. and Europe both have strategic petroleum reserves and coordinate policy responses bi-laterally and through the International Energy Agency in Paris.

Since the 1970s the U.S. has become increasingly exposed to more price spikes and supply disruptions relative to Europe as its oil consumption has steadily risen and its domestic production has steadily declined. Over the last five years, however, these trends have reversed due the economic recession, increases in U.S. corporate average fuel economy standards (CAFE) and the opening up of new domestic oil reserves through hydraulic fracturing or "fracking." The resulting flattening of U.S. oil demand and fall in U.S. oil imports have brought the U.S. oil market more into line with Europe's. This convergence will be further enhanced as more efficient and less oil-dependent vehicles like the Toyota Prius gain market share on both sides of the Atlantic. The one area where the U.S. remains behind Europe is in using fuel taxes to raise revenue and encourage efficiency.

The U.S. and Europe also face a common challenge in dealing with China, India and other developing countries whose oil consumption and imports are rising rapidly. Both developed countries have an interest in helping developing countries gain access to newly discovered oil reserves in Africa, the Arctic and other remote areas in an environmentally sustainable manner, keeping maritime and terrestrial oil supply lanes open, and managing price shocks and supply disruptions with minimum damage to their economies. Coordination of responses to oil spills, cooperation in protecting choke points like the Malacca Straits from

terrorist attacks, and assistance to developing countries in building their strategic oil reserves are three excellent candidates for transatlantic cooperation. The Arctic Council provides a model of how such cooperation might be structured.

Natural Gas

With respect to natural gas, there is between the U.S. and Europe, a convergence of policy goals, but a divergence of means for achieving those goals. Both have an interest in securing reliable long-term natural gas supplies, avoiding excessive reliance on a single source of supply, and using natural gas as a transition fuel towards a low-carbon future. The U.S. has been better placed to achieve those objectives than Europe throughout the post-war period, and the gap between the two has recently widened due to the "fracking" revolution in the U.S. Europe remains uncomfortably dependent on a single supplier, Russia-based Gazprom, for its natural gas supplies and continues to pay prices pegged to the oil price under long-term contracts. In contrast, U.S. is benefitting from a surge of cheap gas from fracking that has driven gas prices to their lowest level in decades and has put the U.S. in a position to be a net gas exporter (the U.S. price per mmBTU (one million BTUs) is around \$3.50; European prices are in the eight to twelve dollar range).

This low price has had the added benefit of attracting billions of dollars of new investment in the U.S. from petrochemical and other industries using natural gas as a feedstock. It has also helped to enable the U.S. to reduce its dependence on coal for electricity production from over fifty percent to thirty two percent (as of April 2012) and to increase its use of gas for that purpose from approximately twenty percent to thirty-two percent (also as of April 2012). This fuel-shifting has in turn reduced U.S. carbon emissions, with the result that the U.S. was one of only two countries in the OECD to actually reduce its CO₂ emissions last year (the other being Germany).

Europe has the potential of narrowing this gap by exploiting its own reserves of shale gas and by renegotiating its contracts with Gazprom to delink gas from oil prices. Neither will be easy. Europe combines greater population density and a strong green movement with exaggerated public concerns about the environmental consequences of fracking. As the U.S. gains experience in how to reduce the negative environmental impacts from fracking operations and how to strike the right balance between economic and environmental objectives, Europeans are likely to become more comfortable with at least limited fracking. Poland and other Eastern European countries are prepared to move more quickly, but early results have been disappointing. Gazprom, which is already experiencing erosion in its market share, knows that it will have to give ground on pricing, but will do so only grudgingly.

As in the case of oil, the U.S. and Europe have a strong interest in cooperating to help China, India and other developing countries use natural gas to achieve common objectives. In particular, continued exploitation of abundant coal reserves in China and India for electricity production will make it almost impossible to protect the global climate from serious disruption. Both the U.S. and Europe have a vital interest in helping those countries switch from coal to gas in the electricity sector to mitigate climate change. In the longer-term, all countries will need to develop non-carbon energy sources, but in the meantime natural gas is a critical transition fuel.

Non-hydro Renewables

With respect to non-hydro renewables, there is a basic convergence of policy objectives between the U.S. and Europe, but a substantial divergence in meeting those objectives, this time in Europe's favor. Europe, and particularly Germany, is well ahead of the U.S. in developing wind and solar resources, largely because its combination of high feed-in tariffs, ambitious targets for the percentage of

electricity produced from renewable sources (EU 20% by 2020 and Germany 25% by 2020), and government support for green technology development. These European stratagems have proved far more effective than short-term and undependable U.S. federal tax credits and state subsidies and a kaleidoscope of state renewable portfolio standards in the States. Low natural prices in the U.S. have also disadvantaged U.S. renewable energy developers relative to European counterparts.

The gap in non-hydro renewable energy penetration between the U.S. and Europe is likely to narrow somewhat over the coming decade as the U.S. develops a more consistent and effective policy framework (a federal renewable portfolio standard, multi-year tax incentives, new transmission lines from high prairie wind production sites to consumption centers) and U.S. natural gas prices rise from their current level of approximately \$3.50 per mmBTU to \$5 per mmBTU or more. The gap, however, will not be eliminated absent a change in U.S. climate policy. The long-overdue cornerstone of such a change would be putting a meaningful price on carbon. Another Sandy or two may be required to bring this about.

As with oil and natural gas, the U.S. and Europe face a common challenge from China on non-hydro renewables. The Chinese renewable energy industry has experienced explosive growth over the last ten years, and China is now the world's largest and lowest cost producer of solar photovoltaic (PV) modules. This rapid expansion of the Chinese solar PV industry, driven in large part by central and provincial government subsidies, has put tremendous pressure on U.S. and European PV module producers, which have been unable to compete on price. A number of U.S. producers have gone out of business and Siemens has withdrawn from the market.

The U.S. and EU have responded to this situation by bringing major trade cases against China, both bi-laterally and through the WTO. China has responded by bringing cases against U.S.

and European suppliers of polysilicon, alleging discrimination in favor of domestic suppliers. This trade war cries out for a negotiated solution involving U.S., European and Chinese governments and companies since all producers are suffering losses caused by global over-capacity, and all have an interest in an orderly expansion of the solar PV market consistent with trade rules. Close transatlantic cooperation will be essential to crafting such a solution.

Energy Efficiency

With respect to energy efficiency, both the U.S. and Europe recognize that improving the efficiency of energy production, distribution and use is the lowest-cost way of reducing energy demand and carbon emissions. Throughout the post-war period, however, Europe has been far more efficient in the distribution and use of energy than the U.S. as a result of historical, cultural and ideological factors. European countries introduced high fuel taxes and electricity tariffs decades ago to raise revenue and reduce dependence on imported energy. The resulting high energy prices have had the collateral benefit of depressing demand and encouraging investment in energy efficiency.

Europe has a tradition of deferring to state power and high population density; the U.S. a tradition of individual autonomy, distrust of state power and dispersed settlement, all of which have encouraged urban sprawl and high individual mobility supported by low energy prices. Europeans are generally comfortable with state intervention in the market to achieve public goals; many Americans have a deep-seated ideological aversion to such intervention and regard it as a threat to the "American way of life." The result of these differences is that Europeans use roughly half the energy per capita as Americans and pay roughly twice as much per British Thermal Unit (BTU).

Fortunately the U.S. is beginning to narrow the gap with

Europe on energy efficiency as it follows the example of California, which has an average annual per capita electricity consumption of about 7,000 kilowatt hours compared with about 6,000 for Germany and about 13,000 for the rest of the U.S. In the electricity sector, minimum energy efficiency standards for appliances and other products at the federal level, stricter building codes at the state level and LEED (Leadership in Energy and Environmental Design) requirements developed by the U. S. Green Building Council are all improving end-use efficiency, particularly in new buildings. In the transportation sector, higher CAFE standards, more efficient diesel engines and growing sales of hybrid vehicles are likewise improving end-use efficiency. One area where the U.S. remains far behind Europe is the use of combined heat and power technologies for district heating and power generation.

Climate Change

On climate change, the U.S. is deeply divided in a manner that Europe is not. A majority of Americans, particularly those living in big cities and "blue states" such as California, New York and Massachusetts, regard climate change as a serious problem and believe that the U.S. should do more to address it. A substantial minority, however, particularly those living in rural areas and "red," energy producing states, believe that the threat of climate change is exaggerated and may even be a hoax perpetrated by liberal elites to gain control of the U.S. economy and make it more like "socialist Europe."

This minority relies on the opinions of "climate skeptics" disseminated through Fox News, talk radio and other conservative media outlets. Most members of this minority, which is centered in Appalachia and the other areas governed by the old Confederacy, used to be Southern Democrats but have now become Republicans in response to the civil rights revolution of the 1960s. The result of this shift is that climate change has become a partisan issue dividing Democrats

and Republicans.

The blocking power of conservative Republican members of Congress representing this minority has made it impossible for legislation putting a price on carbon either through a cap-and-trade system such as the one contained in the Waxman-Markey bill passed by the House before the 2010 elections or through a carbon tax to be passed by Congress today. (Waxman Markey would be roundly defeated in the current House). It is interesting to note that American industry has for the most part dropped its opposition to putting a price on carbon – Waxman Markey was largely drafted by Jim Rogers, Chairman of Duke Energy, with the support of the Edison Electric Institute, and Rex Tillotson, the Chairman of Exxon-Mobil. We are now left with the Jacobins of the Right and their representatives in Congress.

In the aftermath of hurricane Sandy and the re-election of President Obama, the U.S. will move further towards Europe on climate change, however slowly. Blue states like California and cities like Chicago, Los Angeles, New York, Seattle and Portland are already setting emissions targets similar to Europe's. The Obama administration's Copenhagen target of a 17% reduction in emissions from 2005 levels by 2020 can be accomplished through the aggressive exercise of existing authority under the Clean Air Act. Unfortunately German commitments to phase out nuclear power plants could help narrow the gap in the reverse direction. Whatever progress is made in the U.S. and Europe, however, will be overwhelmed by emissions growth in China and other rapidly growing developing countries. Therefore the world is already committed to a significant increase in average surface temperature by 2100 (estimated by the Executive Director of the International Energy Agency at six degrees Celsius).

Brexit and European energy policy – the case for engagement

With a few honourable exceptions, the debate on British membership of the EU has so far consisted of a contest between the outs and the half outs – that is, those who want Britain to leave completely and those prepared to stay only if the country is protected from further incursion by immigrants or European policy makers. The other approach – active engagement to change and improve what happens – has barely been articulated. In several areas positive engagement is much needed and offers substantial benefits. Energy policy is a good place to start.

The EU has only limited competence when it comes to energy policy. The mix of fuels and the tax system under which they are traded remain matters of national choice. That isn't likely to change. It would be a waste of time to try to force France to accept fracking or to tell the Germans that they are going to have to keep nuclear power. Any attempt to centralise such emotive decisions will fail.

In any case it is unnecessary. What matters is that European citizens have safe and secure supplies of energy when they need it at a price they can afford and that the different energy policies of the 28 member states contribute to the progressive reduction of emissions which is a clear common policy objective.

Those three objectives – energy security, competitiveness in a world where energy prices can influence employment as well as

living standards, and environmental protection – are not always easy to combine. But there are things European countries working together could and should do that would help.

Security would be improved if supplies were diversified – so an accident or some act of political hostility by one supplier could easily be resolved by the provision of supplies from elsewhere. Emergency stocks could be held collectively – a much cheaper solution than expecting 28 different countries to each keep stocks of their own. And, most important of all, infrastructure could be built to ensure that no individual state is isolated, and that back up networks especially for the supply of gas and electricity are available to everyone. The European Commission has talked and written a good deal about the last point but nothing has happened. Diversity has been promoted as a concept but German policy in particular now seems to be working to strengthen the role of Russian gas supplies, which will benefit Germany at the expense of the common good.

As a result, in a period when imports are growing as production of oil and gas from the North Sea declines, Europe's energy supplies are becoming less secure year by year.

In terms of competitiveness current policies are not working. Electricity prices across Europe, with the exception of France, are materially higher than those in the US because of the cost of subsidised renewables. Gasoline prices for both business and ordinary consumers are also higher because petrol is used as a way of extending the tax base. In the UK almost 80 per cent of the pump price motorists pay is accounted for by taxes.

On the environment, the European approach has been to set targets – for instance for emissions reductions. Many such targets are regularly missed – even Germany will not meet its

own 2020 targets because of continued support for coal-fired power generation. The gap between targets and performance undermines the credibility of public policy generally. The greatest contributor to the reduction in emissions is low growth and austerity – a pyrrhic victory bought at the price of high unemployment and social dislocation.

None of this is a reason for writing Europe off, or for giving up on the objectives. European policy could and should be much more practical and productive. Let's take three practical suggestions.

- First, the key infrastructure links should be built – particularly to areas such as the Baltic states which remain uncomfortably dependent on the energy networks of the old Soviet era Comecon economy (the communist version of Europe's common market). European structural funds should be combined with the proposed Juncker investment fund in a way that would materially help the local economy. The proposed lines linking the Baltic states to western Europe are not the only important project but they are a symbol of what could be done and would represent a confirmation of Europe's commitment to the full integration of its eastern member states.
- Second, Europe should proceed step by step with the development of an ultra-high voltage grid which could eventually be connected across the continent. The Chinese have mastered the technology – why can't Europe do the same? A new grid would allow power to be moved over long distances with minimal losses. The greatest beneficiary would be the renewables sector, where production is often located at a long distance from the main centres of consumption. A grid that could access supplies from all areas would reduce the costs of intermittency arising from the fact that the sun does not shine all the time and the wind does not blow continuously. In particular, a strong grid would remove

the burden of maintaining high-cost back-up supplies in the form of power stations usually fired by gas which are used for only a fraction of the day.

- Third, and perhaps most important of all, Europe could refocus its response to climate change away from self-indulgence. A clean, carbon-free Europe is irrelevant if other parts of the world remain dependent on energy sources that produce high levels of emissions. Climate change does not recognise national boundaries. The key challenge for the next 20 years is to find a way of enabling the world's poorer countries to raise living standards without creating a global environmental disaster. India, and other emerging economies, cannot afford high-cost renewables as an alternative to coal. They need energy supplies that are simultaneously low cost and low carbon. The scientific and engineering challenge of achieving that should be at the heart of European policy.

None of these are impossible goals. But they are not being achieved. Current European policies are too rigid. Britain has a long history in energy development and trade and great strengths in technology and science but the UK government has stepped back from the development of energy policy in Europe because anything that requires co-operation has been seen as toxic in the narrow terms of the country's political debate. That means that the potential gains are lost and the real possibilities of progress are left out of the debate at a moment when as the former UK prime minister Gordon Brown argues in his new book, *Leading not Leaving*, "people need to hear a positive message about what Europe can deliver for them".

On the current opinion polls, the UK will vote to remain part of Europe on June 23. But that is not enough. Once the current crazy exchange of threats and fears is over, there needs to be a serious engagement so the key policies can be shaped by

British experience and skills as well as those of other member states.

A vote to remain should not be a vote for the status quo, or for a Europe in which Britain is a reluctant, whining member who stays only under sufferance. Europe can do more and Britain can help to lead the process.

Rex Tillerson in Turkey: What to expect from the U.S. secretary of state's visit to Ankara



It will be a short meeting with long wish lists and an even longer list of potential consequences.

U.S. Secretary of State Rex Tillerson is in Ankara today for his first official visit with his Turkish counterpart, Mevlut Cavusoglu.

- **U.S. secretary of state says there's 'no space' between Turkey, U.S. in determination to defeat ISIS**

The United States and Turkey, NATO allies, have a long history

and an important friendship – but the love is hardly unconditional. This meeting will be one of a series that will help determine the conditions of the relationship in the future. Whether it thrives or dies will have serious implications for both countries.

What Turkey wants

Turkey has two key asks. One is the return of Ankara's most wanted man: Fethullah Gulen. The other is a plan to fight ISIS that doesn't involve the PYD and YPG – Kurdish groups that the Turkish government refers to as terrorists.

Raqqa is a key battleground in Syria, and many argue the PYD and YPG are crucial to getting ISIS out of the region. But Turkey is adamant its troops will not be involved if those Kurdish groups are.

Their presence, the Turkish government insists, will change the ethnic makeup of the region and pose a future threat to Turkey.

Turkey's prime minister made a surprise announcement Wednesday night, saying that Operations Euphrates Shield – the major Turkish operation in Syria – was finished. Binali Yildirim told Turkish news network NTV the operation was “successful” and because of it, Turkish troops were able to cleanse the towns of Jarabulus and Al Bab of ISIS.

The timing is interesting, given the Tillerson visit and that Turkish officials have been saying for some time they were planning to move towards Manbij next. That plan is apparently on hold.

Beyond ISIS and some Kurdish groups, the Turkish government also sees a significant threat in Gulen. Though he has lived for years in self-imposed exile in Pennsylvania, Turkey blames the cleric for the failed but deadly coup attempt that stunned

Turkey last July.

▪ Who is Fethullah Gulen, the man Erdogan blames for Turkey's coup attempt?

The Tayyip Erdogan government has labelled Gulen and his supporters FETO – The Fethullah Gulen Terror Organization – and has demanded his extradition. It insists that it has delivered files full of evidence to the U.S. to support the request.

Gulen, a former Erdogan ally turned critic, has denied any involvement but acknowledged that people sympathetic to his movement may have been among the plotters.

While Turkey is putting a lot of hope in the new Trump administration, it is U.S. courts that will decide if Gulen comes back to Turkey, said Ozgur Unluhisarcikli, the Ankara director of the public policy organization, the German Marshall Fund of the United States.

And those courts, he added, will want proof.

“There’s circumstantial evidence of a Gulenist conspiracy,” he said. “On the other hand, the courts in the United States will look for direct evidence.

“It’s one thing to be persuasive about this issue, but it’s another thing to be able to present direct evidence.”

Extradition cases are usually long, drawn-out affairs, so Gulen’s fate will not be decided in the short time Cavusoglu and Tillerson have to talk. These kinds of cases can take years – not weeks – to be resolved, Unluhisarcikli said.

Bizarre developments

There are allegations that some U.S. officials may have been trying to give Erdogan what he wants – even if it meant

breaking the law.

In an interview with the Wall Street Journal, former CIA director James Woolsey said he was privy to a conversation in which former national security adviser Michael Flynn – once a lobbyist paid by the Turkish government – was “brainstorming” with high-level Turkish officials about a potential “covert operation” to get Gulen out of the U.S.

Flynn’s spokesman denies that any such discussions took place. (Flynn resigned from his post after it was revealed he had not disclosed conversations with the Russian ambassador to the U.S.)

▪ White House says it didn’t know Michael Flynn lobbied for Turkey

The Woolsey interview is just one in a recent series of mysterious developments in the Turkey-U.S. relationship.

Preet Bharara, the former U.S. Attorney for the Southern District of New York, has recently become a bit of a celebrity in Turkey. Before he was fired by the Trump administration, Bharara was prosecuting Turkey-based businessman Reza Zarrab on charges of funnelling money to Iran, in violation of U.S. sanctions.

Zarrab was also named in a 2013 bribery and corruption investigation linked to high-ranking officials in the Erdogan government, though the probe was eventually dropped.

Now Rudy Giuliani, an ally of U.S. President Donald Trump, has been added to Zarrab’s defence team. And on Tuesday, a top executive with Turkey’s state-run Halkbank was arrested in New York, accused of colluding with Zarrab.

Turkey’s foreign minister says that arrest and “ensuring a transparent process” in the case is now on the agenda for his talk with Tillerson.

Then there's the recent electronics ban that affects, among others, Istanbul's main airport, and the new travel warning from the State Department, which asks U.S. citizens to avoid southeast Turkey "due to the persistent threat of terrorism."

Despite coming days before Tillerson's visit, Unluhisarcikli believes these alerts are not calculated moves intended to send a message to the Turkish leadership. "Coincidences are more probable than we tend to believe," he said.

What is definitely not a coincidence, but rather clear sign of strategy to keep relations with the U.S. in good standing – at least for now – is how relatively silent the Turkish government has been in the face of the recent arrests and bans.

Erdogan and his ministers have railed against European leaders for other perceived slights.

What the U.S. needs

Turkey isn't the only one who needs to keep this partnership going; the U.S. also needs an ally in the region.

Turkey has always offered that, and the use of its Incirlik Air Base, to the Americans. But as Erdogan's power has increased, so too have the fractures in the relationship.

The U.S. needs Turkey to be on board with its plan in Raqqa, and Tillerson is expected to again push for the idea of an anti-ISIS strategy that uses Kurdish fighters.

And Tillerson isn't likely to focus on Turkey's upcoming referendum that could expand Erdogan's powers even further, save for perhaps a reference to the importance of democracy. Tillerson will not be meeting with any opposition leaders.

Cavusoglu and Tillerson will hold a joint news conference

after their meeting on Thursday afternoon, when many will be paying close attention to their words and body language.

The importance of the two countries' relationship cannot be overstated, Unluhisarcikli said. The more Turkey drifts away from the West, the more it drifts into the liability category, making an already unstable region even riskier.

“What Turkey turns into will determine whether Turkey is an asset or a liability for transatlantic community.”

Roudi Baroudi Remarks at the 8th Mediterranean Oil and Gas Forum 2017 in Nicosia, Cyprus.





These are truly historic times for the Eastern Mediterranean. The region still has more than its share of problems, but we could be on the verge of a new era – and the energy industry is well-positioned to show the way.

Energy is the lifeblood of modern economies, and all of the science points to massive reserves of oil and (especially) natural gas off the coasts of several Eastern Med countries, including Cyprus, Egypt, Israel, and Lebanon. If responsibly managed, this resource will contribute both directly and indirectly to significant GDP growth, giving these countries the capacity to make long-overdue investments in education, healthcare, infrastructure, transport, and other sectors. In turn, these investments will improve overall competitiveness, raise standards of living, reduce poverty, and set the stage for self-sustaining growth over the long term.

For our region, though, “responsibly managed” means more than just following international business, governance, environmental, and safety standards: it also means finding a way to build and maintain economic and political trust, both between nation-states and within individual societies. Whether we like it or not, we are all partners in this endeavor, so we share an interest in achieving the kind of stability that encourages private investment, reduces trade barriers, and accelerates economic activity across the board. If long-time rivals provide sufficient political and/or diplomatic space for our emerging energy industry to take root, the resulting economic benefits will flow to all concerned, alleviating many of the symptoms – and even some of the causes – of the region’s various problems.

No discussion of this topic is complete without emphasizing the central role to be played by Cyprus. Although every country involved will retain some of its gas production for domestic use, for most of us the real game-changer will be a massive boost in export revenues. There are two ways to get gas to markets in Europe and elsewhere – pipelines and liquid natural gas (LNG) carriers – and Cyprus is clearly the best gateway for both.

Its geographical location, ample coastline, and unique geostrategic position make it: 1) the perfect collection and distribution point for the output of neighbors like Lebanon and Israel; 2) an ideal terminus for one or more pipelines to Turkey and the European mainland; 3) the only viable location for a regional LNG plant; and 4) a natural middleman between regional governments whose relationships are troubled or non-existent. Because of these and other qualities, including its membership in the European Union, Cyprus should be the cornerstone on which the entire edifice of regional energy growth is built.

What is more, the Republic of Cyprus (ROC), has taken serious steps to make the most of these circumstances by establishing

a presence at several steps along the region's energy value chain. It has moved quickly and effectively to make the island an indispensable regional energy hub by passing suitable legislation, setting up a national energy company, and drawing up a world-class regulatory regime. It also has **already signed EEZ delimitation agreements with Egypt, Lebanon and Israel**, attracted oilfield support, communications, and other service firms, and has now held three successful licensing rounds for exploration and production rights, securing the participation of major IOCs from around the globe.

The only significant **hurdle** still standing is the decades-old division of the island, where the internationally recognized ROC controls only the southern two-thirds, while the rest is under the **Turkish control through the "Turkish Republic of Northern Cyprus" ("TRNC")**. Here too, however, both sides have demonstrated strong commitment to a negotiated reunification, and while the latest round of talks has been delayed by an uptick in tensions, there is **still reason to expect a resumption**.

Among these reasons is the fact that the new US Secretary of State, Rex Tillerson – whose previous career as head of ExxonMobil makes him singularly well-equipped to understand the importance of Cyprus – has already taken a direct interest in the peace process. We can only hope that the US, the UN, and the EU will exert even more positive pressure to help the talks succeed, including the powerful inducement of having at least some of the region's gas exports pass through Turkey, which is already one of the world's most important energy corridors.

TRNC. The governments of Greece and the United Kingdom also have critical parts to play in helping the Cypriot people to achieve reconciliation and start reaping the rewards thereof.

The other question mark in the Eastern Med is my homeland, Lebanon, and while a lot of time has been wasted in the past

few years, efforts to get its house in order are finally back on track.

Until recently, political infighting had blocked Parliament's election of a new president for more than two years, the Parliament extended its own mandate for nearly three years, and the prime minister and Cabinet were basically caretakers because of widespread perceptions that they lacked legitimacy. Even before this multi-sided impasse, rival political camps were so mutually suspicious that cooperation was impossible.

Despite these headwinds, some crucial preparatory steps were taken. The Lebanese Petroleum Administration was created in 2012, and while political squabbles delayed its work, the LPA still found a way to lay the foundation for the country's nascent energy sector: all the necessary mechanisms are in place or ready to be rolled out, including tender procedures and draft terms for the fiscal regime.

It is my pleasure to report that other pieces are now falling into place as well. The former commander of the Lebanese Armed Forces, General Michel Aoun, has been elected president, and he enjoys more broadly based support than any of his recent predecessors. He also has made a welcome habit of insisting that Lebanon can only regain its former glory by ensuring and enforcing the rule of law, something that will be essential if the Lebanese are to keep the proceeds of gas exports from being squandered by incompetence or pilfered by malfeasance.

There is a new prime minister too, and he and his Cabinet likewise enjoy relatively strong acceptance. Last but not least, most political factions have gotten serious about holding new parliamentary elections. The usual debate over constituency size and other rules may cause a delay, but most signs point in the right direction.

As many had hoped, the LPA has moved quickly to take advantage of improving political conditions. Most tellingly, it has

initiated the country's first licensing round, inviting bids for offshore exploration in five of the 10 blocks it has delineated in Lebanon's Exclusive Economic Zone (EEZ). At least two of the five blocks are pretty straightforward: Block 4 lies entirely within Lebanon's EEZ, directly off the coast, while Block 1 lies in the northwest corner, where demarcation has already been agreed with Cyprus. **(As far as I know there is no delimitation agreement between Lebanon and Syria. Actually there is a maritime dispute stemming from the tabling by Lebanon of coordinates for its northern EEZ boundary to the UN to which Syria objected in writing).**

Blocks 8, 9, and 10 are more complicated because all three are in the south, where Lebanon's maritime claims overlap with Israel's. The area in question is less than 5% of Lebanon's EEZ and an even smaller slice of Israel's **claimed EEZ**, which would have been negotiated away under normal circumstances, but the two countries have technically been at war for almost 70 years, punctuated by repeated outbreaks of actual hostilities and even more numerous threats thereof.

The situation is difficult but not impossible. **The US and the UN, as well as Cyprus have rendered their good offices in order to find ways to solve the dispute** by holding separate talks with Israeli and Lebanese officials, and whatever their other disputes, both sides now have a shared interest in avoiding anything that might hinder energy development. With so much at stake in terms of attracting foreign investment, securing export revenues, and accelerating GDP growth, the cost of another shooting war would simply be too high.

Conversely, the benefits – not just for Lebanon and Israel, but also for their neighbors and their would-be customers – of getting down to business are too attractive to pass up. Reliable supplies of cheap, clean natural gas from the Eastern Med would improve energy security for Turkey, the EU, and other consumer nations. Europe in particular would benefit from lower energy costs, reducing a major burden on households

and restoring economic competitiveness. Perhaps most importantly, an East Mediterranean gas boom touched off by diplomacy would set an inspiring example for other regions haunted by longstanding disputes.

Beirut is not out of the woods yet. It still needs to settle several issues, including the establishment of a transparent and accountable Sovereign Wealth Fund to make sure that the benefits of future energy revenues flow to the general population rather than to small groups of economic and political elites. But at least the guiding principles are clear: steer clear of unnecessary frictions with Israel, follow international best practice, and protect the ensuing revenues. Other obstacles may well emerge, but none will be insurmountable if these three rules are followed. REB remarks for Nicosia 2 March 2017

These are truly historic times for the Eastern Mediterranean. The region still has more than its share of problems, but we could be on the verge of a new era – and the energy industry is well-positioned to show the way.

Energy is the lifeblood of modern economies, and all of the science points to massive reserves of oil and (especially) natural gas off the coasts of several Eastern Med countries, including Cyprus, Egypt, Israel, and Lebanon. If responsibly managed, this resource will contribute both directly and indirectly to significant GDP growth, giving these countries the capacity to make long-overdue investments in education, healthcare, infrastructure, transport, and other sectors. In turn, these investments will improve overall competitiveness, raise standards of living, reduce poverty, and set the stage for self-sustaining growth over the long term.

For our region, though, “responsibly managed” means more than just following international business, governance, environmental, and safety standards: it also means finding a way to build and maintain economic and political trust, both

between nation-states and within individual societies. Whether we like it or not, we are all partners in this endeavor, so we share an interest in achieving the kind of stability that encourages private investment, reduces trade barriers, and accelerates economic activity across the board. If long-time rivals provide sufficient political and/or diplomatic space for our emerging energy industry to take root, the resulting economic benefits will flow to all concerned, alleviating many of the symptoms – and even some of the causes – of the region's various problems.

No discussion of this topic is complete without emphasizing the central role to be played by Cyprus. Although every country involved will retain some of its gas production for domestic use, for most of us the real game-changer will be a massive boost in export revenues. There are two ways to get gas to markets in Europe and elsewhere – pipelines and liquid natural gas (LNG) carriers – and Cyprus is clearly the best gateway for both.

Its geographical location, ample coastline, and unique geostrategic position make it: 1) the perfect collection and distribution point for the output of neighbors like Lebanon and Israel; 2) an ideal terminus for one or more pipelines to Turkey and the European mainland; 3) the only viable location for a regional LNG plant; and 4) a natural middleman between regional governments whose relationships are troubled or non-existent. Because of these and other qualities, including its membership in the European Union, Cyprus should be the cornerstone on which the entire edifice of regional energy growth is built.

What is more, the Republic of Cyprus (ROC), has taken serious steps to make the most of these circumstances by establishing a presence at several steps along the region's energy value chain. It has moved quickly and effectively to make the island an indispensable regional energy hub by passing suitable legislation, setting up a national energy company, and drawing

up a world-class regulatory regime. It also has **already signed EEZ delimitation agreements with Egypt, Lebanon and Israel**, attracted oilfield support, communications, and other service firms, and has now held three successful licensing rounds for exploration and production rights, securing the participation of major IOCs from around the globe.

The only significant **hurdle** still standing is the decades-old division of the island, where the internationally recognized ROC controls only the southern two-thirds, while the rest is under the **Turkish control through the** “Turkish Republic of Northern Cyprus” (“TRNC”). Here too, however, both sides have demonstrated strong commitment to a negotiated reunification, and while the latest round of talks has been delayed by an uptick in tensions, there is **still reason** to expect a **resumption**.

Among these reasons is the fact that the new US Secretary of State, Rex Tillerson – whose previous career as head of ExxonMobil makes him singularly well-equipped to understand the importance of Cyprus – has already taken a direct interest in the peace process. We can only hope that the US, the UN, and the EU will exert even more positive pressure to help the talks succeed, including the powerful inducement of having at least some of the region’s gas exports pass through Turkey, which is already one of the world’s most important energy corridors.

TRNC. The governments of Greece and the United Kingdom also have critical parts to play in helping the Cypriot people to achieve reconciliation and start reaping the rewards thereof.

The other question mark in the Eastern Med is my homeland, Lebanon, and while a lot of time has been wasted in the past few years, efforts to get its house in order are finally back on track.

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election of a new president for more than two years, the Parliament extended its own mandate for nearly three years, and the prime minister and Cabinet were basically caretakers because of widespread perceptions that they lacked legitimacy. Even before this multi-sided impasse, rival political camps were so mutually suspicious that cooperation was impossible.

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LNG plant at Vassilikos still an option, president says



Monetising the Aphrodite gas field is a top priority for the government, which based on expected future gas finds is also looking at options, including a liquefaction terminal at Vassilikos, President Nicos Anastasiades said on Wednesday.

In his speech at the 8th Mediterranean Oil and Gas Forum in Nicosia, Anastasiades presented the government's strategy for

the development of the hydrocarbons sector, which includes improved cooperation among the region's countries.

Referring to the Aphrodite field, the president said it represents a top priority with the energy ministry in talks with the consortium to draft a development and production plan as soon as possible.

At the same time, he added, commercial talks with potential buyers in Cyprus and Egypt for long-term contracts are equally important.

Such talks are ongoing and the most viable option is a regional pipeline to Egyptian liquefaction facilities, either at Damietta or Idco, the president said.

"Of course, it must be noted that, on the basis of expected future discoveries, the government of Cyprus is also examining various other scenarios of commercial development, including a liquefaction terminal at Vassilikos," Anastasiades said.

Noting that French energy giant Total plans to conduct exploratory drilling in block 11 of Cyprus' exclusive economic zone within the year, while the ENI/Kogas consortium plans to continue its exploratory programme, Anastasiades said that "it is becoming increasingly evident that the Cypriot hydrocarbons sector in the last two years has gained fresh momentum".

"This is especially true after the promising results of the third licensing round, during which, despite the challenging investment climate in the hydrocarbons industry, we have received applications for the three available plots from companies of the highest calibre," the president said.

Negotiations over exploration and allocation contract terms with the ENI/Total consortium in block 6, ENI in block 8, and the ExxonMobil/Qatar Petroleum consortium in block 10, are in their final stages, he added.

“We expect these plots to be licensed very soon, and that the companies will set an aggressive exploratory schedule,” Anastasiades said.

According to the president, Cyprus’ regional policy has traditionally placed a very high premium on creating an environment of stability and mutually beneficial cooperation.

“To this end, we are convinced that economic cooperation can also strengthen political trust, which comprise the necessary preconditions for successful cooperation in the field of hydrocarbons,” he said.

Anastasiades added that Cyprus hopes that the promise of prosperity can help create peace and stability in the region.

“I have the strong belief that, through respect for international law and national sovereign rights, all countries in our region and beyond, including Turkey, can benefit from cooperation and the creation of an environment of stability, which can secure energy investments in the billions,” he argued.

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US Secretary of State Tillerson calls Anastasiades



New US Secretary of State Rex Tillerson and President Nicos Anastasiades held a telephone conversation on Tuesday evening – the first since the American official took office.

The announcement was made by Government Spokesman Nikos Christodoulides on his Twitter account.

Christodoulides wrote the conversation focused on the suspended UN-brokered Cyprus peace process, bilateral issues but also regional affairs.

Tillerrson was expected to also call later on Tuesday Turkish Cypriot leader Mustafa Akinci.

Singing the praises of an oft-slighted OPEC, World Energy Council chief gives his thoughts



In September 2010, the Organization of the Petroleum Exporting Countries (OPEC) marked its 50th anniversary, but most of the world's leading social, economic and environmental bodies did not join in the celebrations.

The milestone provided what should have been a fitting backdrop for recognition of the very real accomplishments of OPEC's past and present and the role it is likely to play in the future. The organization's resources and policies have evolved to the point where it is now an indispensable partner on multiple levels: its determination to maintain security of supply contributes to world economic stability, its dominant position in the energy industry gives it vital influence over measures to protect the environment, and closer coordination with it could help multilateral institutions to better serve human development around the globe.

Despite all that OPEC has done on these and other fronts, the organization's contributions remain largely unheralded. The mainstream media typically dismisses the group as a crude (in both senses of the word) cartel. This unflattering assessment is broadly shared by everyone from individual consumers of oil products to the heads of states and major corporations.

OPEC's image problems may stem from its own public relations. For far too long, the organization and its members have been both loath to accept blame for mistakes and, bizarrely, unwilling to trumpet successes. The result was a familiar one to anyone who studies the contemporary Arab world: those who refuse to define themselves are instead defined by various – often hostile – others.

An unfair reputation

OPEC was founded with the overall aim of liberating its member countries' hydrocarbon assets from foreign domination, thereby making more of the proceeds from their sale available for promoting economic development, providing better education and healthcare for their populations and sharing the wealth with less fortunate peoples.

Admittedly, not all or even most of the organization's member states have consistently pursued these goals with sufficient rigor. We all know the reputation of the "oil sheikh", the spoiled prince who squanders millions on a luxurious lifestyle. For decades there was more than a grain of truth to the stereotype.

But it is not within OPEC's purview to impose standards on the governance of sovereign member states or on the personal behavior of their rulers; its primary task, again, is to help them make more money from their primary natural resource, and in this it has succeeded beyond anyone's expectations.

Recent years have witnessed a marked improvement in the handling of energy wealth, a fact demonstrated by the proliferation of massive development and infrastructure projects, tremendous improvements in areas such as education and healthcare, and by the gargantuan holdings accumulated by some countries' sovereign wealth funds – Abu Dhabi's alone, according to some estimates, is thought to control assets in the range of \$1 trillion.

In addition, as the oil trade has matured, OPEC has sought to fulfill a regulatory function when possible and to ensure

flows of supply and transparency in the petroleum trading system. Its efforts on these fronts flow through numerous channels, including its central role in the International Energy Forum and its support for the Joint Oil Data Initiative.

It undertakes these endeavors despite the risks attached to the heavy investments necessary to ensure the robustness and readiness of the entire supply chain. The maintenance of price levels that justify the running of such risks is a major reason why the world's economies always have access to the fuel they need. And as OPEC frequently stresses, the sky-high rates for hydrocarbon products in many countries have little to do with its own practices.

Instead, they often stem from factors entirely outside OPEC's control, including taxes levied in affluent consumer nations, the expansive profit margins of major oil companies based in several of the same countries, speculators who operate there and – it has to be said – the politico-military policies pursued by some Western governments in and around the world's principal oil-producing region, the Middle East.

Despite OPEC efforts, global energy markets have suffered periodically from a lack of cooperation between the producing nations and the consuming ones, to the detriment of both, but at the same time it is OPEC who has actually done something to alleviate the repercussions of poor cooperation.

Far from being a one-trick pony concerned solely with its own commercial interests, OPEC increasingly attends to the long-term welfare of the consumer nations by, among other things, working for the development of an effective and coordinated energy framework and enabling exchanges on petroleum issues of common interest.

In the past two years, with much of the world economy suffering the after-effects of the global financial crisis, OPEC also was instrumental in limiting the damage and fueling the recovery: it raised output to keep prices reasonable, availed itself of existing spare capacity and accelerated

programs for capacity expansion in order to discourage speculation and was always there to facilitate dialogue and cooperation.

After displacing the major international oil companies as the primary determinant of crude production, OPEC and its member states have become key players on the global economic stage. The organization is now a crucial interlocutor with bodies like the G8, the G20, and the European Commission, and it has begun to participate in efforts to combat poverty and environmental degradation.

Oil aid

Across the developing world, the OPEC Fund for International Development (OFID) uses its resources to provide significant financial and other resources to support social and economic projects and to ensure affordable energy prices for the poor. All told, the agency pledged more than \$500 million in grants and soft loans over the past year. The scope of these funds ranges from the battle against HIV/AIDS to improving supplies of clean water to emergency humanitarian relief.

As of October 2010, OFID's cumulative commitments to provide easy credit for public sector entities in less developed countries had reached almost \$9 billion, more than \$5.4 billion of which had already been disbursed.

On top of this, recent years have also seen OPEC get serious about protecting the environment. As climate change and other green issues have gained their rightful spot on the global agenda, the organization has begun to do its part.

In 2010 alone, for instance, OFID earmarked support for a variety of environmental causes, including grants for the International Conference on Food Security and Climate Change in Dry Areas in Amman, the 3rd Annual Conference of the Arab Forum for Environment and Development in Beirut, organic agriculture training in East Africa and an effort by Green Globe to train 300 campaigners tasked with raising awareness of environmental issues.

While accepting that the global energy mix will change in the coming decades, OPEC has been instrumental in supporting research aimed at reducing emissions in the here and now, especially carbon capture and sequestration technologies pioneered at the In Salah operation in central Algeria. It also has adopted active roles in multilateral groupings, including the World Bank's Global Gas Flaring Reduction Partnership, as well as the International Energy Agency's Greenhouse Gas Research and Development Program.

For the positive socioeconomic influences it exerts on today's world, and for all of the prescient preparations it has begun to make for tomorrow's – including measures to mitigate the effects of its members' lifeblood – the group deserves some credit. Provided it gets better at explaining itself, it might even receive a few long-overdue cheers when its Diamond Anniversary rolls around in 2020.