

# **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.

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## **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.”

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## **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

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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.

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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.

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

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# 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.

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**Roudi Baroudi's remarks on the sidelines of New York Times Athens Energy Forum NYT Conference 2017**



February 2, 2017

My purpose here is to update you on progress at the eastern end of the Mediterranean – namely some new steps taken by the government of Lebanon to get its nascent energy sector off the ground.

As you may recall, Lebanon has wasted a lot of time in the past few years. Cyprus recently held its third licensing round, and others have gone even further: Israel, for instance, is already drilling, and while internal legal and policy battles have slowed some aspects, Israeli negotiators have aggressively pursued export or transit deals with other countries – including both Jordan and Turkey.

In Lebanon, things have been very different. A long-running political struggle left the presidency vacant for more than two years, the Parliament granted itself two extensions



totaling almost three years without new elections, and the Prime Minister and Cabinet served in a de facto caretaker capacity because of widespread perceptions that they lacked legitimacy.

Even before this breakdown of the constitutional order, rival political camps were so mistrustful of one another – and so evenly matched – that little headway could be made because each side blocked the other's initiatives.

Luckily, even with these paralyzing conditions in effect, some preparatory steps were taken. The Lebanese Petroleum Administration was established in 2012, and while dysfunctional politics delayed everything from the onset of its legal authority to the recruitment of qualified personnel, the LPA managed to lay much of the necessary groundwork. The idea was that once the politicians stopped bickering, all of the rules, regulations, and policies would already be in place, so the country would have the wherewithal to start playing catch-up.

I'm happy to report that there has been significant improvement. A new president has now been elected by Parliament, and his genuine support – both in the legislature and among the general population – is more broad-based than many of his predecessors. A new Prime Minister has also been installed, and since this was part of the same deal that allowed the presidency to be filled, he and his Cabinet enjoy relatively strong acceptance. Perhaps most importantly, the long-delayed parliamentary elections are due to be held in June, and while the usual debate is taking place about the rules under which those polls should take place, there is general optimism that they will be held "on time".

Best of all, the Lebanese Petroleum Administration has taken this momentum as a signal to start activating the energy sector. Last month it took a decisive step in this direction by initiating 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). Nonetheless, the process will not be a simple matter of "plug and play", but this time the obstacles are external.

Again, the LPA has done a lot to make sure all the necessary mechanisms are in place or ready for installation, including tender procedures and draft terms for the fiscal regime. And at least two of the five blocks being licensed should be relatively straightforward: Block 4 lies entirely within Lebanon's EEZ, directly off the coast, and Block 1 lies in the northwest corner of Lebanon's EEZ, where its demarcation has already been agreed with both Cyprus and Syria. Those interested in these blocks will know exactly what they're bidding on, and the successful bidders and their partners free to get on with the business of modern exploration work without other distractions.

Blocks 8, 9, and 10, on the other hand, are a different matter altogether because all three are in the south, where Lebanon's maritime claims overlap with those of Israel. At issue is a relatively small area of about 840 square kilometers, less than 5% of Lebanon's EEZ and an even smaller slice of Israel's. Under normal circumstances, the conflicting claims would likely have been negotiated away with relative ease, but Lebanon and Israel have no diplomatic relations and have remained in a legal state of war – with frequent outbreaks of actual hostilities – for almost 70 years despite the 1949 armistice.

The situation is not irrecoverable, however, and both the United States and the United Nations have worked hard to broker a consensus by holding separate talks with Israeli and Lebanese officials. What is more, whatever the intractability of their other differences, on this score at least both sides have a clear and compelling interest in avoiding any kind of conflict that interferes with the development of their energy reserves. All of the region's emerging producer countries

stand to make substantial revenue gains, allowing game-changing investments in health, education, transport, and other areas whose impact will be felt for decades, even centuries.

It all comes down to mathematics: there is simply too much money at stake, meaning that in addition to the lives that would inevitably be lost, the direct financial and opportunity costs of another armed confrontation would be exponentially greater than the price-tags attached to bombs and missiles.

The numbers don't lie, so there is reason for optimism that the EEZ issue will be resolved before it impedes exploration activities. In addition, if and when cooler heads prevail and some kind of understanding on indirect cooperation (or even non-interference) is reached, the resulting dividends will go far beyond Dollars, Euros, Pounds or Shekels – and the effects will be felt far beyond the Mediterranean.

Cheap, clean, and reliable natural gas supplies from the Eastern Med would also significantly enhance energy security for Turkey, the European Union, and other countries. For Europe in particular, it would be a new lease on life, restoring the competitiveness of the Continent's economy and providing consumers with lower prices for energy and a long list of other goods and services. And for both the MENA region and other parts of the world haunted by conflict or the threat thereof, an East Mediterranean gas boom made possible by sober diplomacy would set an encouraging – and highly lucrative – precedent.

These manifold and far-reaching benefits mean that numerous local and outside actors will want the same thing in the Eastern Med: stability. Cyprus, for instance, figures to be a linchpin for the entire regional gas economy, but it can only play that role to the fullest if it achieves reunification after more than 40 years of division. Each of the main external players on the island – Britain, Greece, and Turkey –

also has good reason to want tensions reduced, and Russia's growing presence in the region (including investment offshore each of Cyprus, Syria, and Egypt) gives it a vested interest in a more predictable region. American companies are also present, and literally no one better understands what is at stake than the incoming US secretary of state, former ExxonMobil boss Rex Tillerson.

Of course, there is still much for Beirut to address, including the structure and management of an effective and transparent Sovereign Wealth Fund to safeguard future energy revenues. There is also the matter of determining the true size of its offshore treasure, but all signs from exploration under way off Cyprus and Israel – plus the discovery of Egypt's massive Al-Zohr gasfield – suggest that Lebanon is on the verge of a historic windfall. In fact, some 2-D and 3-D studies already indicate that the country's hydrocarbon potential outstrips those of its immediate neighbors.

At this point, all Lebanon needs to do is play its cards right: avoid unnecessary confrontations with Israel, follow international best practice for safe and environmentally responsible oil and gas development, and protect the ensuing revenues against nepotism, waste, and other forms of mismanagement. So long as it makes itself a stable platform, investment will come and a better future will almost certainly follow.

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## **Lebanon poised for energy breakout, including in Cyprus**



Lebanon is finally getting serious about developing its offshore oil and gas reserves thanks to a reduction in domestic political tensions, a senior industry veteran told a high-profile energy conference in Athens on Thursday.

“There has been significant improvement,” said Roudi Baroudi, CEO of Qatar-based Energy and Environment Holding (EEH), an independent consultancy.

Speaking at the Athens Energy Forum, which attracted a long list of political and industry leaders from Greece and other E.U and Middle East countries, Baroudi said major obstacles had been removed in recent months and that more progress was in the offing.

“A new president has now been elected by Parliament, and ... a new prime minister has also been installed,” he reminded the audience, adding that both officials enjoyed strong public acceptance. “Perhaps most importantly, the long-delayed parliamentary elections are due to be held in June.”

Many Lebanese institutions have been hamstrung by years of infighting among rival political camps, causing the country to fall behind neighbors like Cyprus and Israel in getting its nascent energy sector up to speed. Conditions for progress look much better now, Baroudi said, explaining that much of

the credit was due to the Lebanese Petroleum Administration (LPA) established in 2012.

“Luckily, even with these paralyzing conditions in effect, some preparatory steps were taken,” he explained. “The LPA managed to lay much of the necessary groundwork. The idea was that once the politicians stopped bickering, all of the rules, regulations, and policies would already be in place, so the country would have the wherewithal to start playing catch-up.”

In fact, he said, both “2-D and 3-D seismic geology studies, as well as high-tech airborne acquisition surveys, already indicate that the country’s hydrocarbon potential outstrips those of its immediate neighbors.”

Now that the political log-jam is breaking up, Baroudi noted, the LPA has begun to act in other ways as well.

“Last month it took a decisive step ... by initiating 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,” said Baroudi, who has worked in the energy industry for over 30 years.

Nonetheless, “the process will not be a simple matter of ‘plug and play’” because apart from continuing fears about transparency, Lebanon also would need to sort out a maritime boundary dispute with Israel.

“Both the United States and the United Nations have worked hard to broker a consensus by holding separate talks with Israeli and Lebanese officials,” he told the forum. “Whatever the intractability of their other differences ... [Lebanon and Israel] have a clear and compelling interest in avoiding any kind of conflict that interferes with the development of their energy reserves.”

“It all comes down to mathematics,” Baroudi argued. “There is simply too much money at stake, meaning that in addition to

the lives that would inevitably be lost, the direct financial and opportunity costs of another armed confrontation would be exponentially greater than the price-tags attached to bombs and missiles.”

In addition, he said, the benefits of an East Mediterranean energy boom would serve the interests of Turkey, the European Union, and various extra-regional actors, increasing outside support for negotiated solutions on both the Libano-Israeli front and the issue of Cyprus reunification.

“Numerous local and outside actors will want the same thing in the Eastern Med: stability. Cyprus ... figures to be a linchpin for the entire regional gas economy, but it can only play that role to the fullest if it achieves reunification,” said Baroudi.

“Each of the main external players on the island – Britain, Greece, and Turkey – also has good reason to want tensions reduced, and Russia’s growing presence in the region, including investment offshore each of Cyprus, Syria, and Egypt, gives it a vested interest in stability.

American companies are also present, and literally no one better understands what is at stake than the incoming US secretary of state, former ExxonMobil boss Rex Tillerson.”