

CAN THE DISCOVERY OF NATURAL GAS INDUCE A SETTLEMENT IN CYPRUS?

Ayla Gürel

*Senior Research Consultant at Peace Research Institute Oslo (PRIO)
Cyprus Centre*

UN-sponsored inter-communal negotiations aimed at resolving the anomalous political situation in Cyprus have been going on intermittently for over four decades. The latest hiatus of about two years ended when the talks resumed last month (February 2014) once more giving rise to hopes for a settlement. However, those familiar with the complexities of the Cyprus problem generally remain skeptical about such prospects. For example, one Cypriot, who is also a long-time student of the conflict on the island, has expressed the view that 'it will take a miracle to bring about the miracle of a negotiated settlement'.

So one must ask: is there any reason to think that this time round the two sides might achieve what they have repeatedly failed to do until now, that is to negotiate a compromise between their deeply divergent perceptions about how the Cyprus problem could be solved?

Many commentators have alluded to the discovery of natural gas resources offshore Cyprus as a major new factor that provides strong economic incentives for reaching a settlement. No doubt, from a purely economic perspective this discovery might seem to promise great things. But politics is rarely grounded on economics alone. Actually, gas exploration has so far rendered agreement on a solution more difficult. This is because it initiated a dispute between Turkish Cypriots and Turkey, on the one side, and Greek Cypriots, on the other, over sovereign rights in the island's exclusive economic zone (EEZ). This has in turn accentuated the parties' fundamental differences at the negotiations on the crucial and persistent question of sovereignty.

On the other hand, it is obvious that a settlement would significantly improve the political and economic environment for hydrocarbons development in Cyprus thus making it more attractive to investors. Moreover, Cyprus would be able to export its gas via a pipeline to Turkey and potentially onwards to European markets, which many believe is the cheapest, quickest and hence most commercially viable export option for Cyprus gas. On the face of it, this should be an attractive proposition for all parties. Cyprus (both Greek Cypriots and Turkish Cypriots) needs cash, given the struggling economies on both sides of the island; and Turkey needs cheaper gas from alternative sources. Also, by tapping into gas from Cyprus, it would enhance its potential as a gas transit country.

However, under the current circumstances these potential incentives are not likely to work for at least one important reason: both sides tend to envisage the new economic possibilities as useful in their political struggle. Each side perceives the other side's need to be greater than its own and therefore presumes that the other side has a greater need to solve the Cyprus problem. The Greek Cypriots believe that the Turkish Cypriots should have the stronger incentive to solve the Cyprus problem because without a solution they cannot have their share of the gas revenues. Similarly, they think that Turkey, as an energy-hungry market, is eager to find alternative cheap supplies via Cyprus gas. Turkey and the Turkish Cypriots, for their part, believe that the Greek Cypriots, because of the dire state of their economy, need gas revenues as quickly as possible and that the fastest route to revenues is via a pipeline to Turkey. This Turkish belief has become stronger as the Greek Cypriots have recently had to further postpone their strategic goal to build a liquefied natural gas (LNG) plant due to lower current estimates for the discovered gas resources.

Still, there is an alternative post-settlement regional cooperation model involving Israel in addition to Cyprus and Turkey, with potential benefits that are more likely to induce the parties to resolve the Cyprus problem. This is an arrangement whereby following a Cyprus settlement a gas pipeline runs from Israel to Turkey through Cyprus' EEZ, while at the same time Israel pledges to supply gas for an LNG plant in Cyprus. Of course, the proposed plan assumes that the on-going reconciliation process between Israel and Turkey will be concluded in the coming months.

The proposed model could bring significant gains to all players. It offers Turkey an alternative gas supply that should be cheaper than some of its current options; it offers Israel diversity of gas exports and geopolitical benefits; it offers Greek Cypriots the opportunity to build the LNG plant they desire faster than would otherwise be the case and without having to depend on Turkey as an export market; and it offers Turkish Cypriots a share in gas revenues. Given all this, the trilateral cooperation model could be a strong incentive for the parties to conclude the negotiations for a settlement of the Cyprus problem quickly.

Needless to say, arriving there would require bold political vision on the part of the leaders in the region, that is both sides of Cyprus, Greece, Turkey and Israel. But also, and no less importantly, it would need strong backing from influential external actors with an interest in reconciliation and stability in the Eastern Mediterranean, particularly the US and the EU.