MEMORANDUM
TO: Secretary of State Hillary Clinton
FROM: State Department Energy Task Force Team 5
SUBJECT: Implications of Goliath Gas Field Development in the Levant Basin

I. Executive Summary
This memorandum discusses the possible policy options for the United States to respond to the conflicting interests of Israel, Lebanon, Turkey, Cyprus and other stakeholders with the discovery of the Goliath oil fields in the eastern Mediterranean. The US should consider hosting negotiations between these key stakeholders as a starting point while using bilateral pressure on all stakeholders to resolve the conflict. Our long-term proposal is flexible but initially includes granting Israel their defined EEZ while appeasing Lebanon by developing a Lebanese gas industry along with Lebanese gas fields. Additionally, our proposal requires cooperation between the Republic of Cyprus and the Turkish Republic of Northern Cyprus (TRNC) to share economic benefits from any gas developments, as well as the support of their primary backers - Greece and Turkey respectively - through the building of a seabed pipeline to Turkey and through pressure from the EU.

II. Situation
The discovery of the ‘Goliath’ gas field in the eastern Mediterranean by a US-Israeli joint business venture has brought to the surface geopolitical and commercial concerns for a number of stakeholders in the Middle East. The field extends to disputed maritime waters between Lebanon, Israel and Cyprus. While the Goliath gas fields have the potential to meet growing global and regional energy demand, the discovery risks inflaming regional tensions; making it vulnerable and critical for the US to stay involved in the region.

III. US Interests
The US needs a diplomatic proposal that balances our desire to see the natural gas field developed and mitigates political tensions in the region. Being heavily invested in the Middle East, we cannot overdo our involvement due to currently negative Middle East perception of the US and vulnerability of political will and resources domestically. US interests are threatened and advanced as follows:

- Maintain and improve current bi-lateral relationships with main actors
  - Threatened: The situation, if dealt with poorly, could strain diplomatic progress in the region and cause further resentment towards the US
  - Advanced: Strengthened economic relationships
  - Advanced: Broker a successful deal and develop a positive image

- Maintaining or improving tense calm in the area (regional stability)
  - Threatened: Tensions over gas could escalate into war
  - Advanced: If economic development occurs based on this find, could potentially improve stability and cooperation in the region

- Supporting Noble Gas and other US companies abroad
  - Threatened: Noble already has contracts in region, may be threatened if they continue with contracts
  - Threatened: Other US companies in the region threatened if there is a long dispute or any fighting, or even the suspension of their contracts
- Advanced: if successfully resolved, other companies will be able to invest in region - may lead to growth within the region, opening up economic opportunities

- Supporting allies improve regional energy security
  - Advanced: European interests in the development of the fields for their energy security
  - Advanced: Allies ability to benefit if successful

- Defer to other authorities in the region as long as their needs are met
  - Threatened: Though encouraged by Secretary to develop strategy, need to keep a light hand to avoid “overstaying our welcome.” Better strategy could be ‘offshore balancing’ i.e. delegate regional responsibility to EU and Turkey

IV. Important Actors
In addition to the United States and our interests delineated above, there are three groups of key stakeholders with a number of important actors within each:
- States - Israel, Lebanon, Cyprus (both Republic of and TRNC), Turkey, Greece, and Egypt
- Business Interests - Noble Energy, Cooperating Companies (Delek Drilling, Avner Oil, etc.), and other large Energy Companies (ExxonMobil, BP, etc.)
- Non-State Actors - Hezbollah, the UN, and the EU

Table [1] in the Appendix breaks down each of these actors by key interest, other important interests, assumptions, and the key question that needs to be answered in regards to individual actor’s cooperation.

V. Key Obstacles
- Republic of Cyprus (or “Greek Cyprus”) will not want to share revenue with the Turkish Republic of Northern Cyprus (TRNC, recognized only by Turkey). Turkey assumes this and will vehemently oppose any deal that does not actively demonstrate the Greek Cypriots sharing economic benefit with the Turkish Cypriots.
- Hezbollah will object to any deal that gives an advantage, real or perceived, to Israel. Lebanon does not have control of Hezbollah militia and Hezbollah is gaining ‘legitimate’ political influence in the country.
- Turkey has poor relations with Israel especially since the Israeli attack on the Gaza aid flotilla. May perceive Israel as working bilaterally with Greek Cyprus.
- Lebanon and Israel have poor relations after 2006 war and recent hostilities.

VI. Immediate Actions
1. Immediately call for a conference of all Key Actors listed above (with the exception of the business interests and Hezbollah) to take place within a month’s time in Tangiers, Morocco. Tangiers was chosen due to it being an Arab state, ease of travel to for all parties, and symbolic location at the gateway to the Mediterranean.
2. Put a moratorium on development of Goliath until conference is adjourned and remove any and all states’ warships from area.
3. Propose a long-term action (which follows). Assess stakeholder reactions, and then move to propose plan modifications or fallback courses of action depending on feedback by these key players and feasibility of initial plan.
VII. Long-Term Course of Action Proposal

1. Settle the EEZ border dispute in favor of Israel: Recognize the Israeli defined border. Reiterate to Lebanon that it current uses no natural gas and has no gas infrastructure, so this will not hurt in short-term. As a result of this Israeli can claim approximately 75% of Goliath, with the Republic of Cyprus claims the remaining 25%. See Appendix Figure [1].

2. Israel helps develop Lebanese Gas Industry: In turn for exclusive EEZ rights over the eastern part of Goliath, Israeli must finance both the extension of Arab Pipeline into Lebanon and ultimately the extension into Turkey to tie in with existing pipelines (possibly Nabucco if it is built). Israel will export its gas into the pipeline via the Arish-Ashkelon extension, and potentially build an overland extension to create an additional leg linking up with the Arab Pipeline in Jordan. Israel will assume 50% of the cost and provide key talent for producing 1 GW of natural gas capacity in Lebanon over the next 10 years, particularly for power generation, and assist in developing potential Lebanese fields discovered by PNG surveys.

3. Shared revenue throughout Cyprus: All revenues resulting from gas and oil must be shared between the Republic of Cyprus and the TRNC. In order to ensure this a jointly financed overland cross-island pipeline will be built to bring the gas supply from the fields (geographically close to the south) to supply the TRNC.

4. Extend Cypriot pipeline into Turkey: The cross-island pipeline will then be extended via seabed pipeline up into Turkey. This pipeline would ultimately provide a second route for Eastern Mediterranean gas to flow through Turkey and ultimately into Europe. In turn this new gas supply can counterbalance Russian supply, which has created issues in the past. As such, the EU could use its leverage against member states Republic of Cyprus and Greece if they cause interference in this plan. The EU can also use its leverage against Turkey to either expedite/completion its admission to the EU, or delay/bock it, in the case that Turkey is the one posing the greatest challenge to a deal within Cyprus. See Appendix Figure [2a] and [2b].

5. With tensions resolved, bring in a strategic partner for Noble: With the exploration and development of Lebanese gas fields on top of the development of the Goliath and previously discovered Israeli and Cypriot gas fields, Noble Energy and its partner companies within the region will not have the capability to scale up operations as quick as is necessitated by this plan. As such once all parties sign on we would bring in a large international and credible energy company as a strategic partner.

VIII. Analysis of Proposal

The United States proposal above promotes stability in the region, achieves economic benefits to US-owned companies, and allows the claim of brokering a peaceful deal on a very difficult situation. Nevertheless, the proposal requires tremendous cooperation between the divisive participants. In spite of economic benefit to all parties involved, as well as an enhanced stability in the region in the end, there are tradeoffs each regional actor has to make. These are described in brief in Table [2] of the appendix.

This proposal is made in the context of the larger geopolitical picture, and we believe we can influence states as is and apply minimal pressure in key points as needed to bring it to fruition. The most difficult piece will be the Hezbollah opposition to Lebanon ceding its EEZ in favor of Israel. The proposal attempts to mitigate this by having Israel develop Lebanese gas industry from virtually nothing, which certainly provides a burden on Israel. However, Hezbollah might see it as a ruse and object in a potentially violent manner. Therefore, the Lebanese government will have to work to placate Hezbollah by selling them on the idea that
Lebanon is in the dominant position by forcing Israel to finance and work for them.

Internal Israeli opposition will exist but should be surmountable with US pressure, particularly if we offer financial incentives. Additionally, the prospect of renewed ties with Turkey by extending the Arab Pipeline to them should be appealing, although Israel would have to leave the issue of Cyprus to the Cypriots (Israel has been strengthening relations with Greece). Also, Lebanese economic success can work to marginalize groups such as Hezbollah. And finally, Turkish and Lebanese cooperation can also help buffer against Syria, in the case of a poor or chaotic outcome of their current situation.

Cyprus is the final piece of the puzzle to solve. The division between the Republic of Cyprus in the south and the Turkish Republic of Cyprus in the north is absolute. There are little relations and constant threats on either side, extending to Greece and Turkey. Therefore, while the cross-country pipeline and resulting revenue and expense sharing in both the existing Aphrodite field and future Goliath field could bring Cyprus together, the cooperation of Greece and Turkey might need to be garnered through external pressure as well.

EU minus Greece can be brought into this agreement, as Turkish piped gas provides an alternative to Russian gas via Ukraine. Additionally, having two pipelines from the Levant basin serves as a hedge in the case one is blocked or compromised for any number of reasons.

IX. Alternative Courses of Action within plan:

A number of alternative choices can be made with the existing plan based on the meeting in Tangiers. A few proposals or courses of action that can be taken individually or in tandem with one another that might be taken and how the US can respond include:

- *The US supporting the Lebanese EEZ claim.* This would be objected to by Israel but remove many of the obstacles presented by Hezbollah, but at the cost of US-Israel relations (and the political ramifications at home)
- *The US supports the recognition of the Turkish Republic of Cyprus.* This will garner support from Turkey. Greece and the Republic of Cyprus will strongly oppose the deal, but Greece will have little leverage due to their current economic situation and reliance on EU. The pipeline to Turkey would still need to be built for Cypriot gas to go anywhere, and this cooperation makes it much easier.
- Contrary to the above, we can simply *push the plan with disregard for Turkey and circumvent Turkish Cyprus*, although it doesn’t have the economic prospects of cooperating and building a pipeline to send gas ultimately to Europe, they will meet domestic demand and can potentially build LNG plants to export throughout the Mediterranean region and beyond. Although this would cause a strain in Turkish-US relations, Turkey’s threats over the development of the Aphrodite field have been unfounded.\(^5\)

X. Conclusion

This is a very difficult situation with implications extended beyond the region. As the US, we want to maintain and improve bilateral relationships with all actors and improve regional energy security (to include the EU) and the general stability in the region, all while supporting our own geopolitical and economic interests within the area. In spite of a recent decline in our influence and soft power in the region, finding a creative solution acceptable to all is key for the US. A proposal highlighting the economic benefits, application of economic support to key spots and leveraging on our regional alliances, will achieve the by-in necessary to gain the support, or at least prevent the interference of, all of the players involved.
## APPENDIX

<table>
<thead>
<tr>
<th>Actor</th>
<th>Key Interest</th>
<th>Additional Interests and Assumptions</th>
<th>Key Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>Energy Security</td>
<td>-Physical security, regional stability, EEZ sovereignty, and energy export</td>
<td>How much would they be willing to finance a state with Hezbollah?</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Securing a source of domestic energy</td>
<td>-Minimizing Hezbollah influence -Sovereignty of EEZ</td>
<td>Is it possible for Hezbollah to allow Lebanon to cede EEZ rights, cooperate with Israel?</td>
</tr>
<tr>
<td>Cyprus (Republic of)</td>
<td>Securing a domestic source of energy</td>
<td>-Continued Israeli cooperation and Greek support, energy export -Looks to develop gas markets and become energy player.</td>
<td>Are they willing to work with Turkey and Turkish Cyprus for mutual benefit?</td>
</tr>
<tr>
<td>Turkey</td>
<td>Benefits of Goliath extend to TRNC</td>
<td>-Maintain relations with the US, secure more sources of domestic energy -Continue to act as important transit country between Middle East and Europe</td>
<td>Will Turkey refrain from interfering in Cyprus?</td>
</tr>
<tr>
<td>Greece</td>
<td>Protection of Cypriot sovereignty</td>
<td>-Continues to need EU and IMF support due to financial collapse</td>
<td>Will Greece disrupt cross-Cypriot cooperation?</td>
</tr>
<tr>
<td>Egypt</td>
<td>Protection of transit pipelines</td>
<td>-Stability in region (particularly for transit pipelines)</td>
<td>What kind of relations does the new Egypt seek with Israel?</td>
</tr>
<tr>
<td>Noble Energy Cooperating Companies (Delek, etc.)</td>
<td>Want operations to continue without interference</td>
<td>-Regional stability -Will continue to scale up at appropriate pace</td>
<td>Will Noble seek strategic partner? If so how soon?</td>
</tr>
<tr>
<td>Other Energy Companies</td>
<td>Would like to get a piece of the Levant Basin</td>
<td>-Look to form strategic partnerships with current players -Seek other opportunities in regional value chain</td>
<td>When will the regional risk be low enough to appeal to these companies?</td>
</tr>
<tr>
<td>Hezbollah</td>
<td>Seek to undermine Israel</td>
<td>-Increase influence within Lebanon -Will take opportunity to strengthen ties with Turkey</td>
<td>How far will Hezbollah go to prevent any deal with Israel?</td>
</tr>
<tr>
<td>UN</td>
<td>Prevent Conflict in Region</td>
<td>-Regional stability -Will avoid getting involved except to deter conflict</td>
<td>What leverage does the UN have in the region?</td>
</tr>
<tr>
<td>EU</td>
<td>Prevent conflict in the region</td>
<td>-Regional stability, energy security, new markets and economic boost to EU -Will work with US in the region</td>
<td>Can the EU effectively use its leverage over Greece, Cyprus and Turkey?</td>
</tr>
</tbody>
</table>
Table 2: Principle gains, trade-offs and key obstacles (diplomatic chokepoints) for the four main regional states involved

<table>
<thead>
<tr>
<th>Country</th>
<th>Gain</th>
<th>Trade-Off</th>
<th>Diplomatic chokepoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>EEZ to their specification (cut Lebanon out of Goliath); Domestic energy demand met</td>
<td>Finance pipeline extension; export cheap energy; develop Lebanese gas industry</td>
<td>Assistance to Lebanon not domestically acceptable; Hezbollah interference</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Technical knowledge; gas field exploration; cheap energy imports; transit fees; Ultimately domestic energy demand met</td>
<td>EEZ rights to Goliath area</td>
<td>Might be unacceptable to Hezbollah</td>
</tr>
<tr>
<td>Cyprus (Republic of)</td>
<td>Domestic Energy demand met; energy export to Europe</td>
<td>Turkish Cyprus equal benefit of oil field.</td>
<td>Division between North and South – Greek and Turkish interference</td>
</tr>
<tr>
<td>Turkey</td>
<td>More transit fees; greater cooperation by Republic of Cyprus</td>
<td>Republic of Cyprus allowed to develop gas fields; Israel allowed full EEZ</td>
<td>Republic of Cyprus and Greece playing ball</td>
</tr>
</tbody>
</table>

Figure 1: Proposed Israel-Lebanon EEZ

![Proposed Israel-Lebanon EEZ](image)

Figure taken from Exhibit [1] of case study.
Figure 2a: Proposed Pipelines, Region

Figure taken from Exhibit [21] of case study.

Figure 2b: Proposed Pipelines, Cyprus

Figure taken from Google Earth.
NOTES

1. Information regarding the situation derived from the case itself.


