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Jordan's Energy Balancing Act

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A deal to buy Israeli natural gas can help mitigate the kingdom's energy shortage and steer Amman away from problematic nuclear plans, but it risks stirring domestic opposition.

In February, two private Jordanian firms signed a contract with a private U.S.-Israeli consortium to import natural gas from Israel's giant Tamar field, located under the bed of the Mediterranean Sea fifty miles offshore from Haifa. The Arab Potash Company and the Jordan Bromine Company -- both partially owned by the Jordanian government -- will pay Houston-based Noble Energy and its partners $500 million over the course of fifteen years to supply a power plant at Jordanian industrial facilities by the Dead Sea. At just $33 million per year, the deal is not financially significant, but it may set a huge precedent in terms of fostering regional economic cooperation and establishing a framework for Jordanian energy security. The political challenges are significant, however, particularly following the March 10 shooting of a Jordanian man at an Israeli-controlled West Bank crossing point.

BACKGROUND

Unlike its Arab neighbors, Jordan has no oil. Apart from one gas field near the border with Iraq, which is used to fuel a power station, the kingdom is wholly reliant on imported energy. For years, it received oil from Saudi Arabia and then from Saddam Hussein's Iraq, which offered discount prices. After Saddam was toppled in 2003, the Gulf Arab states began to provide Jordan with cheap but sporadic oil deliveries at Washington's urging. While helpful, this discounted supply was unreliable.

In 2004, Amman signed a contract to import gas from Egypt, which provided reliable and cost-effective energy supplies for nearly seven years. But after the toppling of President Hosni Mubarak in 2011, the Egypt-Jordan gas pipeline -- which helped generate nearly 90 percent of the kingdom's electricity -- was sabotaged on nearly twenty occasions, interrupting the flow. Jordan had been paying Egypt about $6 per thousand cubic feet of

gas, but the stoppage compelled it to purchase fuel oil as an alternative feedstock for its power plants at dramatically higher prices. In 2012, these extra expenditures contributed to a nearly 30 percent budget deficit.

THE ISRAELI OPTION

With an estimated forty years of gas reserves in Tamar and the larger, as-yet-unexploited Leviathan field, Israel could provide Jordan with an inexpensive and reliable means of meeting all of its domestic gas requirements. Israel is heavily invested in the kingdom's stability and the survival of the moderate monarchy, and it would undoubtedly be glad to fill this need. Reflecting this interest, it has reportedly agreed to sell the gas to Arab Potash and Jordan Bromine at a price comparable to the Egyptian pipeline deal.

Yet King Abdullah has been hesitant to proceed with more Israeli gas deals for fear of domestic backlash. On February 24, the Jordanian Muslim Brotherhood's political party, the Islamic Action Front, described the agreement with the "Zionist entity" as "criminal," "contrary to the best interests of Jordan," and "an attack on the Palestinian cause."

OFFICIAL VISIONS

Jordanian sensitivities about buying gas from Israel were apparent in recent comments by Energy Minister Mohammad Hamed, as reported by the *Jordan Times* on March 2. Headlined with the quote "2018 will be a turning point in Jordan's energy sector," the story failed to mention the new agreement with Noble Energy. Instead, Hamed focused on Jordan's oil shale reserves, some of the largest in the world, though the technology involved in exploiting them is challenging.

Specifically, the minister projected that the Saudi Arab Company for Oil Shale would be producing 3,000 barrels of oil per day from these reserves by 2019, rising to 30,000 b/d by 2025. He also asserted that Royal Dutch Shell would bring onstream additional oil shale projects in 2022, eventually producing 300,000 b/d. (Current Jordanian oil consumption is around 110,000 b/d, all imported.) Furthermore, he noted, an Estonian-Malaysian consortium has agreed to build a 460 megawatt shale-fueled power plant in the kingdom, while a group of Chinese, Emirati, and Jordanian companies is planning a 600 megawatt plant. (Jordan's current generating capacity is 3,140 megawatts.) He also mentioned that agreements to build twelve solar power plants, with a total capacity of 200 megawatts, would be signed this month.

In addition, Hamed announced a natural gas import facility and potential Iraqi oil refinery at Aqaba on Jordan's small Red Sea coast. Baghdad hopes to build an oil export pipeline to Aqaba, reducing Iraqi dependence on tankers having to transit the strategic Strait of Hormuz. The route could be used for Iraqi gas exports as well, and Jordan would be able to use some of the oil and gas domestically. Yet Hamed did not mention BP's January decision to abandon a gas project near the Iraqi border because of poor prospects, after drilling two exploration wells and spending close to $240 million.

Indeed, the minister's comments amounted to a very optimistic assessment of Jordan's indigenous energy future bolstered by a range of enticements from other Arab states. Although not stated as such, some of the proposed projects with these Arab neighbors are implicitly intended to reduce or remove Jordan's need to use Israeli gas.

CONTROVERSIAL NUCLEAR AMBITIONS

Additionally, Jordan is still exploring nuclear energy options. In 2013, it reached a tentative agreement with the Russian state-owned firm Rosatom to build two 1,000 megawatt nuclear plants. Slated to be signed in 2015, the contract has Russia contributing 49 percent of the $10 billion cost, with the rest to be supplied by the kingdom and its investors.

According to the Jordanian Atomic Energy Commission, nuclear power is "a strategic choice." The kingdom envisions that by 2030, nuclear energy will provide 30 percent of its electricity and help alleviate its water deficit (currently 600 million cubic meters per year) through increased desalinization efforts. These ambitious nuclear plans also envision Jordan exporting electricity as well as enriching indigenous uranium to fuel its own reactors and sell abroad. The kingdom has already spent millions in feasibility studies and funded a nuclear research facility.

Unsurprisingly, the United States and Israel are concerned about these plans, with Washington raising particularly vocal opposition to the uranium enrichment proposal. In 2012, King Abdullah famously accused Israel of internationally undermining Jordan's nuclear program.

Yet Amman's plans have domestic opponents as well. In May 2012, parliament voted to suspend the proposed reactor projects, citing safety concerns and claiming that not all costs had been disclosed. More recently, the "National Committee to Oppose the Nuclear Project" reportedly organized demonstrations in downtown Amman and across the kingdom on February 21 to protest the reactors. The rallies included activists from Jordan's largest tribe, the Bani Sakhr. Although the tribe has traditionally been a leading supporter of the monarchy, some members are apparently concerned about the plan to build reactors in the heartland of their territory.

Domestic opposition to the project is partly based on its exorbitant cost. At $10 billion, the projected cost of the two plants is equivalent to the kingdom's entire annual budget. Safety is also a significant worry given that the kingdom is located along a fault line and periodically experiences earthquakes. Poignantly, when Israeli officials mentioned this concern during a June 2009 meeting -- two years before the Fukushima Daiichi catastrophe -- Jordanian officials responded by highlighting Japan as an earthquake-prone country that builds safe nuclear reactors. Other concerns include terrorist threats (despite Jordan's efficient security services) and environmental risks (both on the Red Sea coast and at the reactors' planned desert location). Also, contrary to official pronouncements from Amman, foreign experts have assessed that mining the kingdom's domestic uranium is not commercially viable.

CONCLUSION

Jordan's current energy crunch, which was initially caused by the interruption of Egyptian gas supplies, has been exacerbated by the arrival of nearly a million Syrian refugees. Some of the country's economic problems may eventually decline as International Monetary Fund reforms -- most notably cuts to energy subsidies -- take full effect. Amman has already lifted some subsidies on natural gas and petrol, and it is slated to begin

rationalizing electricity costs this year. But these steps have been unpopular, so the strategy will continue to pose domestic political risk.

Against this backdrop, Jordan's unprecedented gas deal suggests that King Abdullah appreciates the potential benefits of closer energy cooperation with Israel, deeming it a reliable partner to offset dependence on uncertain promises from Arab neighbors. The deal is also in line with the growing strategic links between the two countries, including Israel's provision of significant water supplies to the kingdom.

The United States should encourage such efforts while helping Amman manage the domestic balancing act entailed by cooperation with Israel. And as a major provider of aid in its own right, Washington should quietly intensify its efforts to convince Jordan to jettison its nuclear ambitions.

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