

Clamouring for resources in the Eastern Mediterranean

Oil fever in Cyprus

The possible existence of large deepwater oil and gas reserves in the Eastern Mediterranean is causing ripples in and around Cyprus. The government of Cyprus hopes for an oil bonanza, but results of the first bidding round for exploration concessions have not been encouraging so far.



| By Ioannis Michaletos

French consultants employed by the Cypriot government stated earlier this year that there is a high probability of finding substantial oil and gas reserves in areas off southern Cyprus, at depths in excess of 3,000 metres. The Norwegian PGS Corporation has explored the area for possible oil reservoirs since 2002, using three-dimensional seismic researches and satellite sea basin images. These data have been analysed by the French Beicip-Franlap company, a subsidiary of the French Petroleum Institute, which acts as a consultant for the Cypriot government. Beicip-Franlap has allegedly drawn up a confidential Eastern Mediterranean map with possible oil reserves. Speaking at a public conference in Nicosia in February, Lucien Montadert of Beicip-Franlap said the 'existence of active petroleum systems is assured', adding that in view of discoveries made offshore Egypt, it was likely that gas and condensates were present and that the presence of crude oil could not be excluded.

Just how much oil and gas there would be in the Cyprus Exclusive Economic Zone is a matter of speculation. According to Theodoros Tsakiris, an energy security expert at the Greek centre for European Studies (EKEM) and the South-eastern European Energy Institute (IENE) in Athens, 'the present day findings as conducted by the energy consultancies of the Cypriot government present an optimistic picture for the potential hydrocarbon reserves. The commercially available reserves are estimated at some

Early in May, the Cypriot government announced a bidding round for exploration rights off southern Cyprus. This concerns an area of about 70,000 square kilometres along the "Eratosthenes Mountain" near the division line between the Cypriot and the Egyptian Exclusive Economic Zone. Eight companies expressed their interest, six bought the data the government had prepared. The bidding closed on 16 August.

The results must have been disappointing to the government. According to an official statement from the Ministry of Commerce, 'a total of three applications

for three different exploration blocks were submitted.' Two applications were submitted by a consortium of three companies (Larsen Oil & Gas, DNO and Dove Energy). One application to explore a single exploration block was submitted by a US company, the Noble Energy. This company is based in Houston and has shareholders based in Israel. Its application was aimed at securing research rights in "Block 12" right alongside the Israeli Exclusive Economic Zone where it has already acquired rights. Noble Energy

The Cypriot government is expected to announce the final results of the bidding before the end of the year. Makarios Drousiotis, political analyst, historian



Photo: Aldo Pavan/Corbis.

and journalist at the Cypriot newspaper "Politis", says flatly that "The bidding process was more or less a failure. No major corporations showed any interest despite continuous diplomatic efforts by the government, whilst it seems that the incumbent administration in Nicosia is preparing the way for the 2008 elections and the oil issue is a nice way of diverting people's attention from other more important issues. Most probably the oil is being used as a political instrument in party politics and its existence is pointless if it's too expensive to be exploited in the foreseeable future.'

Professor Panos Papanastasiou, President of the School of Civic Engineering at the University of Cyprus, also expresses some scepticism about the whole project and the alleged oil and gas findings. 'The government in Cyprus wasn't interested in acquiring the expertise of companies such as Schlumberger', he says, 'or any other reputable corporation on this field'.

'The bidding process was a failure. No major corporation showed an interest'

8 billion barrels of oil and even if half of those are finally being exploited, due to high depth and costs, Cyprus will have as much energy potential as that of Azerbaijan with 6 billion barrels of oil that can be commercially viably exploited.'

has said that 'we are making substantial progress in developing the large Mari-B and Noa discoveries off the coast of Israel in the Mediterranean Sea. The Mari-B and Noa discoveries, in which we have a 47 percent interest, are estimated to contain gross natural gas reserves of over one 1 tcf.'

‘Cyprus has as much energy potential as Azerbaijan with 6 billion barrels of oil’



Lumber is emptied into charcoal ovens in Cyprus.
Photo: Mark Caney/Corbis.

Papanastasiou predicts that it will not be cost-effective to produce oil from deepwater reserves in the Mediterranean. ‘We are talking about technology that has only been developed over the past few years with mixed results.’

A spokeswoman of oil consultants WoodMackenzie in Edinburgh said ‘we have not conducted any research on the Cyprus issue, but we are planning to become involved in the coming months.’

Experts agree that the project will only be feasible if oil prices remain very high. Water depths in the area surveyed by PGS run from 800 to 3,000 metres and any attempts at exploration drilling will require a deepwater effort, an expensive undertaking that could easily cost as much as \$40 million per well. The exploration

licenses offered by Cyprus require at least one well to be drilled within a three-year period. Moreover, it is not yet clear whether FPSO vessels (Floating Production, Storage, Offloading) or the use of underwater pipelines would be allowed in the area.

Nevertheless, at political level, the actions of the Cypriot government are already causing some turbulence in the eastern Mediterranean. Cyprus has managed to sign agreements with Lebanon and Egypt for the mapping of their Exclusive Economic Zones (EEZ). Egypt of course already awarded exploration concessions in its EEZ some years ago, e.g. to Shell in 1999 and to BP, Total and ENI-Agip. Drilling has so far yielded discoveries of natural gas, but no oil. In the meantime, the Turkish government has said that the Lebanese

and Egyptian governments are active in an area in which Turkey has interests too. The Turkish Navy circumnavigated Cyprus in February in a show of force. The Turks do not object to the existence of a Cypriot EEZ, but they require Northern Cyprus to be involved as well.

C.K. Daly, of the Middle East Institute in Washington DC, does not rule out the possibility of a conflict between Turkey and Cyprus over the oil factor and points out that Ankara will object to any alteration of powers in the Eastern Mediterranean.

Others, such as the Greek ex-Army General Mr Karatouliotis, think that it will be a long time before any conflict arises. ‘For the time being, the whole situation is in flux.’

If a conflict were to arise, the UK might get involved too, since the British still own two sovereign bases in Cyprus, which occupy 3% of the land. According to Tsakiris, there are serious legal disagreements between Cyprus and the UK as to whether these bases can lay claim to their own EEZ. But, he notes, ‘it is in the interest of the UK to assist Cyprus in developing its offshore hydrocarbon reserves, in view of the declining reserves in the North Sea.’ ■



*Scuba-diver exploring underwater canyon in the Mediterranean Sea.
Photo: Georges Antoni/ Corbis.*