

East Med gas development – Is it worth the trouble it causes

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Overview

- **Cyprus - new drilling round in 2020-2021**
- **Focus on development of Aphrodite**
- **But Turkish claims and interventions pose a challenge**
- **UN attempting to resume of Cyprob negotiations**

Claims on Cyprus EEZ

- Cyprus's gas development is confronted with an increasing number of issues, as Turkish aggression has raised the stakes and risks in the region and is dampening prospects for further exploration and development in Cyprus's EEZ
- This has escalated since the breakdown of the Cyprus settlement talks held in Switzerland in July 2017
- Turkey has been conducting its own seismic surveys and drilling in areas within Cyprus's EEZ – Yavuz in block 7
- The new European Commission favours negotiations in 2020 as part of its thinking to end Turkey's isolation
- The UN is attempting yet again to restart Cyprob negotiations

Prospects in Cyprus – gas discoveries

- The major news this year was the discovery by ExxonMobil of Glafkos in block 10
- Estimated reserves of the 3 discovered gas-fields, with a 90% probability are: Glafkos 4tcf, Calypso 3tcf and Aprodite 3.1tcf
- ENI and Total have been awarded block 7 – disputed by Turkey
- Total also farmed-in ENI's blocks 2, 3, 8 and 9
- Seismic data show promising discovery potential in ExxonMobil's block 10 and adjacent blocks 6, 7, 8, 9 and 11
- Eni, Total and ExxonMobil plan to drill 7 to 9 wells in 2020-2021 – including 4 appraisal wells in Aphrodite, Calypso and Glafkos
- ***Key conclusion: Cyprus still has reasonable prospects for more gas discoveries***

Gas sales prospects – Aphrodite gas

- Noble's renegotiation of its PSC agreement paved the way for Aphrodite gas sales to Shell's Idku – first exports by 2025
- Inter-governmental agreement signed with Egypt for gas pipeline
- Success of Egypt's energy reforms is freeing gas for export - Egypt's Petroleum Minister expects both Idku and Damietta to be fully utilised by next year
- In fact this year Egypt reduced gas production from 70 bcm/yr to 60 bcm/yr to eliminate surplus
- This poses challenges for Aphrodite gas export to Egypt – if it goes ahead profits will be low

Cyprus LNG export prospects

- ExxonMobil interested in reviving the idea of LNG exports from Vasilikos – but needs more gas and conducive global markets
- Needs a unified project and 3 trains x 5 mtpa to bring unit costs down and improve competitiveness
- Could accommodate Israeli gas – but price may be a problem
- But Turkey's aggression poses a challenge
- ***Key conclusion: Discovering more gas likely, but Cyprus gas exports are facing challenges***

LNG plant at Vasilikos



3 trains – 5 million tonnes each

Timing: late 2020s

Cheaper and cleaner

- I participated in four major international oil and gas conferences this last month. The key messages were:
- Gas has a future but must cut costs – competing with cheap renewables, but also coal in Asia
- LNG must become cheaper, affordable and cleaner
- Oil&gas companies are giving priority to producing big, easy to get, easy to export, gas-fields with low production costs
- There is huge investor pressure to address climate change
- There is a LNG oversupply and demand is not growing fast enough to absorb it, leading to low prices
- Oversupply and low prices expected to continue into late 2020s
- ***Key conclusion: gas prices are low and will stay low***

Cyprus has the right but Turkey has the might

- Cyprus declared its EEZ legally, in accordance to UNCLOS, and has the right on its side
- But Turkey has the might and it is prepared to use it to enforce its demands – it is creating a war zone in Cyprus' EEZ
- Cyprus is not in a position to respond or even defend its EEZ
- International support to Cyprus and limited measures by the EU do not cut any ice with Turkey – it will continue drilling
- The main purpose of Turkey's drilling is to support and enforce its and TCs' claims in Cyprus EEZ – it is not to discover gas
- The longer this lasts the more extensive and more intransigent these claims become

Lets take the issues one by one

- **What is needed in Cyprus is cool heads – cool thinking**
- **Cyprus is not in a position to stop Turkey and Turkey will not stop its aggression, no matter what the condemnation is and where it is coming from**
- **Only serious sanctions can stop Turkey but these are not likely**
- **Turkey is claiming a part of Cyprus EEZ that has low prospects for hydrocarbon presence. It can carry on drilling, but the likelihood of discoveries is low**
- **All discoveries so far, and most prospects for new discoveries, are in parts of Cyprus' EEZ not claimed by Turkey or the TCs**
- **The oil and gas companies will not risk their personnel to carry on drilling in direct confrontation of a belligerent Turkey**

Is it worth the trouble?

- **Global gas prices are low and securing export markets for East Med gas is becoming increasingly challenging**
- **And if we do secure some exports, margins will be low - they will not make us rich**
- **So, apart from our strong moral ground and the indignation that Turkey is blatantly violating our rights, confrontation is unlikely to yield any results, but risks aggravating a difficult situation further**
- **The question we should be asking ourselves is to what benefit? Is it worth the trouble?**

Negotiations

- Turkey is alluding to eventual negotiations
- The EU appears unable – or unwilling - to apply meaningful sanctions and may prefer negotiations
- The UN Secretary General wants to find common ground to enable restart of negotiations for solution of the Cyprus problem
- It is becoming important and urgent to find this common ground enabling such negotiations to take place
- Reacting, posturing and indignation alone, despite the catharsis it may provide, it will not take us one step forward
- Given that gas will not make us rich, it is not worth the trouble
- The longer this takes the greater the risks become as Turkey escalates aggressive actions – lets give UN and EU a chance

Cyprus-Turkey gas pipeline

- Without the Cyprus problem in the way, this could have been an option
- About 500km long, costing \$2bn – 10 bcm/yr could be viable
- Turkey looking to diversify gas supplies
- Long-term contracts for 75% of Turkey's gas imports come up for renewal between 2021-2025 – offer an opportunity
- Interestingly, Turkey's foreign minister Cavutoglu said in June and in September: in the East Med "we will learn to share" the gas and then there will be no problem
- Of course it depends on what he meant by 'sharing', but such exports are potentially an option

Implications for Cyprus

- Cyprus aspirations to export gas to Europe and global markets are facing the headwinds of low prices and climate change
- We tend to think like islanders, isolated from the world – monetising our gas is not in our hands, but to global markets - but we can easily mess it up
- The likelihood that it may not be possible to export this gas to global markets is increasing with time
- Even if Cyprus were to be successful to export some of its gas, given low global gas prices profitability is likely to be low
- Without change, the perception of future riches from gas risks remaining a perception
- Emphasis should be placed on negotiations and resolving problems, thus unlocking regional gas market potential