

# The Cyprus solution

## Executive



by Roudi Baroudi

How European-Mediterranean energy collaboration can solve problems all around

More and more people are arriving at the same conclusion: a miracle cure for much of what ails the European Union is close at hand, and Cyprus is easily the best place to dispense it.

Apart from Germany and a few other exceptions, the EU economy is in a historic slump, while its appetite for energy makes it unnervingly dependent on Russia, which supplies a third of Europe's gas imports, and other suppliers outside its borders – thereby making the union dangerously vulnerable to factors beyond its control. The recent confrontation over Ukraine only underscored the potential precariousness of this arrangement: while Russia is not likely to damage its own interests by turning off the taps that supply its biggest customer, its pipelines cross the borders of multiple countries that might perceive an interest in disrupting the flow.

Luckily, however, all recent exploration work indicates that deposits beneath the Eastern Mediterranean seabed contain sufficient amounts of oil and (especially) natural gas to revitalize Europe's economy for decades to come.

Cyprus, Israel, Lebanon and Palestine share what has emerged as a collection of world-class formations; Israel is the only country that has already begun to exploit its reserves, but Cyprus should follow in a few short years. Palestine's potential can't be unlocked until some kind of deal is reached with Israel, and Lebanon has been delayed by domestic political infighting, but the latter's reserves now appear to be the most extensive of the four. And in the longer term, new studies show that Greece may be the real kingpin of the Eastern Mediterranean, further enlarging the region's capacity to fuel a European renaissance with cheap, safe and reliable energy supplies.

It is difficult to overstate the potential of this treasure trove. Going by the latest estimates, Cyprus will shortly be in position to provide clean, safe and reliable supplies that will meet 20 percent of Europe's gas needs. Throw in Lebanon and Israel, and that figure rises to 30 percent, while Greece could bring it to 40 percent by 2020. By increasing the number of competing producers, development of the Eastern Mediterranean will also lead to lower energy prices, driving growth across the EU.

For the producers, it means a new shared stake in peace and stability, massive revenues to fund socioeconomic development and permanent reductions in poverty and other needs. For the consumers, it means an economic revival on the scale of America's 'fracking revolution' – with far less controversy and environmental risk.

For the EU as a whole, it can mean even more: restoring both the momentum of the European project and public faith therein, and reducing tensions among member states, particularly along the traditional North–South axis, caused by economic hardship. It can also transform Europe's southeastern flank, turning a source of instability and refugees into one of opportunity and partnership. Nothing would more fully accomplish the goals of the Euro–Mediterranean ideal, as refined over the years at

Trieste, Barcelona and other venues.

## **Passing the pipe**

These and other gains will not be achieved without first surmounting a few obstacles. The primary political hurdles include Israel's dismal relations with its Arab neighbors, which make direct cooperation virtually impossible for the time being. Meanwhile, the main technical challenges center on getting the gas to thirsty markets on the European mainland, as well as other customers in East Africa and South Asia.

Cyprus can solve all of these problems – and more – by avoiding, simplifying or essentially erasing them. Its diplomatic position already gives it friendly ties with countries on both sides of the Arab–Israeli divide, and its geographical location makes it the only logical place to situate a new regional energy hub. If the necessary investments are forthcoming, that hub will gather the gas produced by all Eastern Mediterranean countries for distribution via pipeline, ideally via Greece's Ionian Sea. Why the Ionian? Because that's where Greece's potential deposits are situated, so running the pipe through there means turn-key access when those reserves are ready to enter the European energy mix.

In the past I've referred to this link as the 'Peace Pipe,' mainly because it would almost force the Arabs and the Israelis to regard one another as indirect business partners rather than as mortal enemies. From the EU's perspective, we could also call it the 'Prosperity Pipe,' since it would substantially decrease production and other costs, restoring much of Europe's competitiveness and opening the way for the revival of its economy.

Other potential markets are far removed from pipeline routes, so the hub should also include a liquefied natural gas (LNG) plant, the output of which would be carried by ship to power

stations and other customers along the African and Asian littorals, places where energy is badly needed to achieve development goals. Dubbing this the 'Peace Plant' sounds about right, but it's what the facility will achieve, not what anyone will call it, that will be important. Opening access to more customers will further expand the shared stake of Arabs and Israelis, lessening the likelihood of future conflict.

Once again, the placement of these prospective LNG markets docks perfectly with Cyprus' geographical and diplomatic qualities, further reinforcing its status as the most commercially viable site to serve as host for the region's emerging energy economy.

But there's more – much more. As an EU member state, Cyprus is party to its stringent environmental and competition laws, rules by which other current and potential suppliers (notably Russia and even more distant producers in Central Asia) are not bound. This means no more worries about transit rights, after-the-fact price disputes or violations of sulphur standards: gas processed, piped or shipped through the island would be bound to comply with EU standards on these and other issues.

### **Europe's choice**

Rarely has any undertaking, let alone one with such far-reaching ramifications, been more eminently qualified to receive official EU recognition as a Project of Common Interest, or key energy infrastructure. The EU's uppermost governing body, the European Commission, is the rightful catalyst to bring all of these considerations together, not only by providing its own funds, but also by recruiting and coordinating other sources of financing, including the World Bank, major international oil companies (IOCs) and other public, private and multilateral actors.

There is reason for optimism. The European Commission of late

has demonstrated increasing interest in the potential of the Eastern Mediterranean in general and Cyprus in particular – and greater awareness of the urgency involved. Vice President and Energy Commissioner Günther Oettinger made all the right signals at an energy conference in Malta, and his voice will be heard, not just because he hails from Germany and is therefore seen as representing the ‘North European’ perspective, but also because his personal reputation is for sober analysis rather than over-enthusiastic boosterism.

In fact, Cyprus will almost certainly become some sort of gas hub regardless of European stewardship: Halliburton and Schlumberger, the world’s biggest oil and gas services providers, have already selected the island as their respective regional headquarters, which tells us all we need to know about what industry insiders think.

The difference is that if the private sector takes the lead, the hub will be designed, developed and oriented to serve the interests of the IOCs; benefits will certainly accrue to Cyprus and the rest of the EU, but mostly as side effects. By contrast, if Brussels plays its rightful role, the entire process will be shaped in such a way as to maximize its advantages for EU citizens. More than ever, the choice is clear.

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**Gaz : Chypre et la région peuvent-ils rivaliser avec la**

# Russie ?

## L'Orient LE JOUR



« Toute personne ou entité se sentant concernée par l'avenir économique de l'Union européenne (UE) devrait œuvrer à faire de Chypre une plate-forme énergétique régionale. » Ces propos ont été tenus lors de la conférence euro-méditerranéenne sur l'énergie qui a eu lieu du 10 au 12 juillet courant, par l'expert libanais en matière pétrolière et gazière et ancien secrétaire général du Conseil énergétique mondial, Rudi Baroudi. Pour illustrer ses dires, M. Baroudi est revenu sur le conflit entre l'Ukraine et la Russie, « qui a montré au grand jour la vulnérabilité de l'Europe, qui dépend de la Russie pour plus d'un tiers de ses importations de gaz ». « S'il y a un projet qui mérite que les membres de l'UE planchent dessus en commun, pour éviter une dépendance énergétique accrue, c'est bien celui-là », a assuré l'expert international.

Pour le vice-président de la Commission européenne et commissaire chargé de l'Énergie, Günter Oettinger, « une plus grande diversité dans l'approvisionnement de gaz est un des objectifs-clés de notre politique ». « Si l'idée de faire de Chypre un hub énergétique se concrétisait, le pays pourrait devenir une source importante d'approvisionnement pour l'Europe, qui est aujourd'hui le plus important importateur de gaz au monde », a rappelé de son côté M. Baroudi. Selon lui, « avec les réserves en gaz présentes en Méditerranée orientale, Chypre pourrait fournir environ 20 % des besoins européens ». « Si on ajoute à cela les récentes découvertes en Israël et au Liban et les possibles découvertes offshore en Grèce, ce chiffre pourrait atteindre 40 % d'ici à 2020 », a-t-il prédit. Rappelons ici qu'Israël exploite déjà ses réserves gazières offshore, alors que, parallèlement, le processus d'appel d'offres pour l'attribution des licences d'exploration au Liban est bloqué depuis plusieurs mois, faute d'accord en Conseil des ministres.

### **Les nombreux avantages de Chypre**

Rudi Baroudi a convenu que la Russie resterait un pilier principal sur le marché européen de l'approvisionnement énergétique, mais il a cependant tenu à mettre en avant les nombreux avantages qu'apporterait la participation de Chypre. « Du fait de sa situation géographique, l'île permettrait de passer outre les différends dus aux axes de transit et rééquilibrerait le nouveau paysage énergétique en contribuant à une baisse des prix », a-t-il indiqué. « Par ailleurs, ce nouveau partenaire renforcerait la position internationale de l'Europe car il ne représente aucune menace puisqu'il fait partie intégrante de l'UE », a poursuivi M. Baroudi. Enfin, selon l'expert, cette nouvelle donne, si elle a lieu, « servirait les intérêts géopolitiques de la région ». « En devenant la plate-forme de distribution du gaz des pays est-méditerranéens comme le Liban, Israël et éventuellement la Palestine, Chypre leur donne également un intérêt commun à la préservation de la paix et de la stabilité dans la région », a

ajouté M. Baroudi.

Ce dernier argument a particulièrement convaincu M. Oettinger, qui a insisté sur « l'importance de la stabilité des pays fournisseurs de gaz ». « L'UE a tout intérêt à ce que la région ne s'enflamme pas car les risques de contagion sont une menace constante », a-t-il affirmé.

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## Cyprus: EU energy hub of the future?

**THE DAILY STAR**  
LEBANON



ST. JULIAN'S, MALTA: EU officials and experts voiced support over the weekend for proposals to turn Cyprus into an energy hub for Europe in order to reduce the continent's dependence on Russian gas.

The European Commission Vice President Gunther Oettinger, one of the key speakers at an energy conference in Malta, strongly



advocated a long-term alternative to Russian gas.

“Stability in the region is important for our own security, as volatility, rivalry and unrest could spill over into the EU,” Oettinger said. “Security of gas supply is of particular mutual interest, and reinforcing the regional trade in gas would be of significant benefit to gas producers and consumers in the EU, North Africa and the Middle East.”

Oettinger also outlined a need in Europe for liquefied natural gas, which Cyprus hopes to make part of its emerging status as an energy hub with the eventual opening of a massive LNG plant.

“LNG will be an important flexibility element and we need to better use our existing and future regasification capacities,” he said. “We also need a reinforced partnership with Norway, the acceleration of the Southern Gas Corridor and the promotion of a new gas hub in Southern Europe.”

Echoing similar views, energy expert Roudi Baroudi said the recent confrontations between Ukraine and Russia underlined Europe’s vulnerability, because it depends on Russia for about a third of its gas imports.

“If you want to shield the EU from energy dependence, establishing a new regional energy hub in Cyprus is the only game in town. If anything merits official EU recognition as a Project of Common Interest, this is it,” Baroudi argued.

He added that the island nation offers several advantages over other options for Europe’s energy security.

“It would bypass disagreements over transit routes, avoiding internal bottlenecks and price disputes,” he explained. “And for good measure, the new energy landscape would lead to lower prices by contributing to healthy competition among several suppliers.”

The event, which also addressed Malta's potential as a gateway for the emerging eastern Mediterranean energy economy, drew a variety of senior figures from the public and private sectors. It was co-hosted by Maltese Energy Minister Konrad Mizzi, his Cypriot counterpart George Lakkotrypis, and Oettinger, who also serves as energy commissioner.

The event was attended by several European and Mediterranean ministers, including President of the European Energy Council Claudio De Vincenti and the Greek Energy and Environment Minister Yiannis Maniatis.

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## **Syria's civil war stagnates oil production**



In May 2013, Syrian Oil Minister Suleiman Abbas told the parliament that output was down 95% from the 380,000 b/d produced prior to the start of the uprising in March 2011, to 20,000 b/d, and that gas production had halved to 15mn cm. In November, Abbas gave the parliament worse figures for the sector, with output at 772,540 tonnes (105,374 barrels) in 1Q2013, down 37.1% from 1,299,100 tonnes (177,197 barrels) in 4Q2012, according to a report in Syrian daily Tishreen. This would be a steep fall to just over 1,000 b/d for oil in government-controlled areas. Natural gas output – which is still held largely in government hands – had declined from 2,020,800 cm to 1,558,760 cm during the same period, a drop of 22.9%. OPEC's December 2013 monthly oil report was more upbeat, estimating Syria's output to average 90,000 b/d in 2013.

This almost certainly has to include rebel-controlled area production, although OPEC did not clarify this and added a health warning: 'The lack of production data from Syria due to the ongoing political situation might bring a large revision once the numbers become available.' Indeed, knowledge of what is happening inside Syria's oil sector is scant. One prominent international energy consultancy firm turned down an interview with Petroleum Review, stating: 'The situation is still unclear and it's very difficult to assess the impact on oil and gas infrastructure. We do not provide speculative commentary.' Estimating damages to infrastructure is clearly difficult to quantify, although the regime has estimated it at some \$70mn. Damage to the country's 6,000 km of pipeline has been minimal, however. 'There are clearly losses in terms of production, and determinate costs on what it will cost to re-start production, as to whether damage to facilities is due to the conflict or because it was not maintained or used. There is no idea what the scale is,' says David Butter, Associate Fellow at the Middle East and North Africa Programme at Chatham House. Losing oil control What is clear is that Syria's energy sector is in bad shape. Abbas stated to the Syrian parliament that 40,000 barrels of oil were being stolen every day from across the country, losing the industry \$1.4bn directly and \$17.7bn indirectly up to the end of 3Q2013.

Meanwhile, \$500mn was being spent monthly on imports of oil and derivatives to meet demand. While the government of President Bashar al-Assad blames sanctions imposed on Syria in late 2011 by the US and the European Union (EU) for the loss of oil revenues, the reality is that the regime has lost control of the key oil producing areas. 'While the regime is regaining important areas in the west and north-west of Syria, it has not achieved much in the desert close to the fields of eastern Syria, which has a large presence of the [rebel movement] Islamic State of Iraq and al-Sham (ISIS), some of the most capable fighters. I don't think the regime will create a new front with ISIS to control the fields because it

cannot concentrate on these areas for logistical constraints, as focusing on the east would compromise the western front, which is already fragile,' comments Ayham Kamel, a senior Middle East analyst at the Eurasia Group. 'So the oil sector will suffer for a prolonged period of time, mainly because fields are in areas under the control of rebels, and they're unlikely to lose control for the foreseeable future,' he adds. With international oil companies having left Syria (Chinese companies pulled out in 2013) and oil sector workers having fled production areas, the rebels have been forced to extract oil as best they can, utilising very basic methods to refine the country's heavy crude oil. According to a report in the regional Arabic-language daily Al-Hayat, in the area around Deir ez-Zor in the north-east, rebels are operating some 3,000 small-scale refineries. 'Anecdotal evidence suggests small amounts are produced and exported to Turkey, and refined in a rudimentary way, probably tens of thousands of barrels a day only,' says Butter. Kamel, however, thinks production is just in the thousands of barrels per day, which has been a stumbling block to the April 2013 EU plan of lifting sanctions on oil exports from rebel-controlled areas to help bolster the opposition. 'It's been a big fiasco. The plan was unrealistic, to export some of that oil to outside markets and create a sustainable revenue stream for, at that time, the Syrian National Council. It was mainly a tool to boost morale among the opposition, as implementing it was very difficult – the regime has an air force and could attack significant deliveries, and the opposition was always divided. If the opposition had made a coherent front and controlled fields, they could have had volumes in the tens of thousands of barrels – but again, vulnerable to regime attacks,' says Kamel. 'Now, many opposition groups control the fields, follow no political authority and they have little or zero experience in operating the fields. It is hard for the fields to be monetised in any significant way, as such small volumes are for local use,' he adds. To offset domestic losses and keep its military machine running, the Syrian

government has had to import fuel. According to Butter, prior to the conflict, Syria was consuming around 320,000 b/d, half of that figure being gas-oil and diesel, while half overall was imported. 'It is obvious that total consumption is a lot less than it used to be, but there's no real indication what it may be; perhaps around 150,000 to 200,000 b/d.

There are a few indications as to how the regime is meeting its liquid requirements, which appears to be a mix of importing products and crude,' he says. A key refinery at Homs city in western Syria has ceased operations, or at best is operating at 10% of capacity, notes Butter, leading to most refining happening at Baniyas on the regime-controlled coast, which has a capacity of around 130,000 b/d. International media reported in December 2013 that Syria is being supplied with crude from Iraq and Iran via private traders in Egypt and Lebanon, with shipments routed to Beirut and Baniyas. 'My reading is Baniyas has four units – two for heavy crude from Iran, and two configured for lighter crudes for Iraqi crudes; but there's no firm information on it,' comments Butter. Indicative of neighbouring Lebanon's role, mineral (oil, gas and solid minerals) imports have surged, as have exports, going from \$3.7bn imports in 2010 and exports of \$56mn, to \$4.6bn in 2013 and exports reaching \$350mn, according to Lebanese customs data. 'State-owned oil companies are not allowed to sell to Syrians [due to the sanctions], but private traders can,' notes Lebanon Energy Analyst Roudi Baroudi. A positive note While the overall picture for Syria's energy sector is grim, in December 2013 Damascus inked a 25-year, \$100mn concession with Russian firm Soyuzneftegaz to explore for offshore oil and gas. Although offshore exploration is likely to go ahead because there are no maritime security concerns in Syria, revival of the sector onshore will have to wait for the end of hostilities – assuming the peace talks have any success. 'The oil industry should be the most important thing to come back on track, as a major aspect of GDP, so it should be up and running very fast [once peace is

secured]. It all depends on the EU and US lifting sanctions,' concludes Baroudi.

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## **In the Mediterranean, the Eldorado gas**

Let's jump ahead 10 years. Europe has overcome the crisis, its industry consumes energy, gas consumption shoots up. Yet supplies are no longer a concern. New gas supply routes of the northern shores of the Mediterranean. There is the rich gas fields in the Caspian Sea, through the southern corridor. There is the new Algeria. But it has recently entered function is also a network of underwater pipeline, like a spider web, flows beneath the waters of the Eastern Mediterranean, arriving in neighboring Greece.

This is just one scenario, which does not take into account many unknowns, the geopolitical risks to economic ones. But under the sea of home hiding large deposits of gas is now a reality.

E 'was first discovered in Israel who then turned out to be the giant fields. First Dalit and Tamar in 2009. The following year it was the turn of Leviathan, the largest oil field ever discovered in the Mediterranean Sea, 130 kilometers off the coast of Haifa.

For a country whose Achilles heel has always been the energy dependence from neighboring states – which are often hostile to – the Leviathan gas proved to be a panacea. By country in perpetual search of energy sources, within a few years Israel will become gas exporter (Tamar will start producing in April,

Leviathan in three years). Some mines are still dangerously close to Lebanese waters. So much so that on several occasions the government in Beirut has advanced his claims a part of Leviathan, proposing the specter of a new war to defend what, precisely, he is entitled. Threats but exhausted in the propaganda. Why Lebanon should also have its promising deposits and peace is a prerequisite for attracting major foreign energy. Knows Roudi Baroudi, CEO of Energy & Environment Holding, based in Qatar, and the outgoing president of the world energy Council. In Rome last week for "Mediterranean East and North Africa Gas Forum" Baroudi is optimistic. "The energy potential in the Mediterranean – explains in the sun 24 hours – they are very large, especially in the east. When it comes to offshore fields, Algeria in the gas is extracted almost exclusively within, as in Libya, even if they are in the course of studies for the exploration blocks in the sea. "

The east is therefore the new frontier. "From this interesting pelvis can get the additional gas that Europe will need – continues Baroudi – also to diversify imports from Russia.'s A third way of gas. Where Cyprus is a candidate as a commercial hub" It 's close to coast of Greece which has good relations, and can build a pipeline to which it can aggregate other, for example by Lebanon and Israel. "

In January, Cyprus has already awarded contracts for "exploration and production" for its potential reserves, which shall include, at the head of a consortium with a 80% share, the Italian Eni. After a series of delays and Lebanon has announced the pre-qualification stage of the race that will turn in early May to select companies that explore its waters.

According to a study of the U.S. geological survey the coast that stretches from the Gaza Strip to Cyprus is a paradise of oil: almost 4 trillion cubic meters of gas in the basin east. "But it is a study of 2008 specifies Baroudi – In light of new

prospects in Lebanon one can speak of an additional volume equal to 10-15% more.”

Dozens of foreign energy companies have rushed in to gain access to Levante data and to assess their participation in the upcoming races, including Chinese and Korean companies.

“Europe is in desperate need of clean and efficient energy such as gas – adds Baroudi – consumption is up sharply, and, after the disaster of the Japanese nuclear power plant, is a form of energy safer, and therefore more demand, especially in some European countries, such as Italy. ”

There is a problem, however, is not a detail.

The area is complex and delicate, with countries at war and no internationally recognized borders, such as those between Lebanon and Israel . Part of the Lebanese territorial waters and the Israeli ones, and their exclusive economic zones are disputed. To avoid possible disputes Israel and Cyprus signed an agreement that defines the boundaries of the respective areas of exclusive economic rights. And in mid-February Israeli companies Delek and Anver have signed an agreement to acquire 30% of the exploration rights for oil and gas blocks in offshore Cyprus. An agreement was hailed by Cypriot Minister of Commerce, N eoclis SYLIKIOTIS, as a new era in the strategic cooperation between Israel and Cyprus, which take on a new economic and political dimension. The agreement comes less than a week after the signing of another agreement for exploration between Cyprus and France’s Total.

Turkey certainly does not look favorably on the deposits of Cyprus. But if the voltages do not miss the game seems worth the candle. “United States and Europe are committed to mediate so that this wealth is not dissipated energy and become a source of wealth rather than cause further tensions conflicts. Though most of the fields should be located away from the Lebanese Israeli waters.

place in the game is very high: second Baroudi reserves the eastern basin could amount to 600-800 billion dollars.