

# 'Seismic market on the rise': Polarcus



Dubai-based contractor eyes increased awards and pricing after boosting backlog despite Q4 loss Polarcus is bullish about seismic market prospects this year, despite recent oil price volatility, as it sees higher tendering activity after boosting its contract backlog by around 40% over the past year. The Oslo-listed seismic contractor has recently notched up eight contract awards to lift its backlog to \$232 million at the end of the fourth quarter, up from \$164 million a year earlier, and now has its four operating vessels fully booked for the first half of this year and 70% booked for the full year, though another vessel, Polarcus Nadia, remains laid up. The company saw tendering activity increase more than 20% last year on 2017, with pricing improvement throughout the year, and has a “strong pipeline of opportunities in 2019”.

It said strong vessel employment prospects provide “good visibility of future earnings and the ability to further increase pricing levels”.

Dubai-based Polarcus notched up its highest-ever vessel utilisation of 96% in the latest quarter, fuelling higher revenue of \$58.4 million, up from \$37.2 million a year earlier. Steve Marshall 27 Feb 2019 08:49 GMT However, increased costs due to higher utilisation left the company with a net loss of \$13.3 million, albeit narrowed from a year-earlier loss of \$26.2 million, while it also suffered an operating loss of \$5.8 million compared with a loss of \$19.3 million in the same period of 2017. Chief executive Duncan Eley said the contractor has a “positive outlook” for 2019 after a crippling four-year market slump in which seismic players have been severely hit by exploration cutbacks by oil companies.

“With the oil price around current levels, pricing in the seismic market is expected to continue to improve over the short to mid-term driven by continued increase in demand from E&P companies and supply discipline from a reduced number of global vessel operators,” he said. He stated that Polarcus is “in the midst of a transforming competitive landscape” with fewer players offering a tighter supply of high-end 3D and 4D seismic vessels as the active global fleet has been cut by a third to only around 20 units from 32 in late 2016, while at the same time demand is on the rise. “Pricing levels of recent awards represent an improvement in the global marine acquisition market,” Eley said, adding “we expect to see our margins continue to improve as pricing levels increase”.

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## **As energy world focuses on**

# Permian, Gulf makes its own comeback



The attention of the energy industry has focused in recent years on the Permian Basin, the once tired West Texas oil field that roared back to life when hydraulic fracturing and horizontal drilling freed the vast reserves locked in its shale. But as the Permian gathers the attention, another aging oil field is making its own comeback.

The Gulf of Mexico is producing a record of almost 2 millions barrel of crude oil a day and expected to increase its output each year over at least the next five years as new projects begin operation and new discoveries in deeper waters are made. After struggling in the aftermath of the oil bust as investment shifted onshore, the Gulf has found new life as oil companies have succeeded in lowering costs, and market dynamics have made the heavier crude produced in the Gulf more valuable and sought after by refineries from the Gulf Coast to Asia.

The energy research firm Wood Mackenzie projects Gulf drilling

activity to jump 30 percent this year after four consecutive years of declines. The federal government forecasts production to grow another 15 percent next year to 2.3 million barrels a day as oil companies, particularly the biggest players, find advantage in deepwater wells that deplete far more slowly than shale reservoirs.

“The quality of Gulf crude as well as the longer life of offshore wells make it just as attractive as shale to large producers today,” said Sandy Fielden, Morningstar’s director of oil and products research.

As in the Permian and other shale plays, producers that have found ways to make money with lower crude oil prices have opened the spigots. The Permian Basin and the Gulf of Mexico account for about half nation’s output, now at a record 12 million barrels a day.

### **Cutting costs**

The average cost of extracting oil barrels from deepwater wells has plunged by more than 50 percent in five years, according to Wood Mackenzie, as companies have standardized project designs and equipment. They also focused drilling projects near existing platforms that can be connected to the new wells via underwater pipelines and umbilicals, which is far less costly than building and installing new platforms.

The breakeven price for profiting off of deepwater wells has fallen from about \$70 a barrel a few years ago to closer to \$40, according to the top Gulf producers BP and Royal Dutch Shell. As one measure of the vast gains in efficiency, consider this: Gulf producers are pumping twice as much crude with a quarter of the drilling rigs used in the mid-1990s.

“The deepwater is thought of as an expensive and difficult place to be,” said Starlee Sykes, BP’s regional president for the Gulf. “Recent developments are changing that.”

The world's biggest oil companies, including BP, Shell and Chevron dominate much of the Gulf, and other top global players such as the French oil major Total, Norway's state energy company Equinor and The Woodlands' Anadarko Petroleum are investing more in the region. Asian energy companies, valuing the political stability of the United States over potentially bigger returns in more volatile regions such as Africa and Latin America, also are developing projects in the Gulf.

Those firms include include China National Offshore Oil Corp., called CN00C, and the Japanese companies Inpex Corp., Mitsui Oil and Marubeni Oil & Gas.

Shell completed a series of smaller expansions last year and, this fall, will put its multibillion-dollar Appomattox platform in operation about 80 miles off the Louisiana Coast to target deep geologic layers believed to hold much on the undiscovered oil in the Gulf. Appomattox will be followed in 2021 with the Vito platform about 150 miles southeast of New Orleans.

After Vito, Shell expects to hone in on its Whale discovery – announced a year ago – in the southwest Gulf almost 200 miles south of Houston. Rick Tallant, Shell vice president for production in the Gulf, said a final decision for a multibillion-dollar development of Whale is likely in 2020.

“The industry in general is starting to reinvest back into the Gulf of Mexico,” Tallant said.

In January, for example, BP said it would spend \$1.3 billion to expand its Atlantis development about 150 miles south of New Orleans. BP said it produces more than 300,000 barrels of oil equivalent a day from the Gulf and plans to exceed 400,000 barrels daily by the mid-2020s.

The Gulf also is attracting further investments from smaller players such as the Houston companies Talos Energy, Fieldwood

Energy, W&T Offshore and Houston Energy.

Ron Neal, co-founder of Houston Energy, said these companies are taking a contrarian approach, targeting the Gulf when shale is all the rage and buying leases at significant discounts to acreage in the Permian Basin. The Gulf's wells are costlier to develop up front, he said, but they can churn out high volumes of oil for many years, unlike shale wells, in which production drops sharply after the first year or so.

"The deepwater is healthy," Neal said. "We just try to be consistent and not reactionary, and it's worked pretty well."

### **To Mars and beyond**

Wood Mackenzie predicts the next big project to move forward could be Chevron's and Total's 2017 Anchor discovery more than 100 miles south of New Orleans. That development could trigger more than \$10 billion in investments.. Last last year, Chevron's new Big Foot platform came online east of the Anchor find.

In addition to lower lease costs and longer well life, another factor is driving increased activity in the Gulf of Mexico: premium prices for its oil. Gulf wells produce a medium grade crude and the benchmark, called Mars, is selling at \$6 a barrel more than lighter crude produced in West Texas – a premium of about 15 percent and the highest differential for Mars since 2013.

The reason: a global shortage of the heavier crudes preferred by refiners from the Gulf Coast to Asia. Several developments have cut the supply of heavier crudes on the market, including OPEC's production cuts, U.S. sanctions on Iran and Venezuela, and OPEC-style output reductions put in place the government of Alberta, Canada to try to lift prices of the heavy crude produced in the province's oil sands.

Analysts expect Gulf of Mexico oil to fetch higher prices at



least though the end of this year.

“As the U.S. consolidates its position as one of the world’s largest producers and a major exporter,” said Fielden, the Morningstar analyst, “the long-term value and importance of offshore production shouldn’t be underestimated.”

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## Aramco eyes LNG deals in next gas strategy



LONDON (Bloomberg) – Saudi Aramco aims to become one of the world’s largest players in natural gas and the company is eyeing projects in Russia, Australia, America and Africa to kick-start a global business in the liquefied form of the fuel.

“Gas is a major market and we want to be one of the largest players,” Amin Nasser, the chief executive of Saudi Arabia’s state-run oil company, said in an interview in London.

“There’s appetite to invest in natural gas and LNG.”

Asked whether the company, formally known as Saudi Arabian Oil Co., will have made a major overseas investment in gas in a year’s time, Nasser responded: “I hope so.”

Natural gas is turned into a liquid by super cooling it to minus 162° Celsius (minus 260° Fahrenheit). After that, the liquefied natural gas, known as LNG, gets loaded onto massive ships and transported around the world. The liquefaction technology, which was developed commercially in the 1960s and 1970s, gave natural gas access to global markets, allowing it to reach countries from Japan to Spain.

The world’s biggest oil companies have invested heavily in natural gas and LNG, with Royal Dutch Shell Plc and Exxon Mobil Corp. operating large projects from Qatar to Australia. In many ways, Western oil companies also see natural gas as part of their energy transition strategy: it’s far less polluting than crude oil, releasing less carbon dioxide that contributes to climate change.

## **Gas strategy**

The push into natural gas is a change of strategy for Aramco, which is already the world’s largest oil exporter. The company, fully owned by the Saudi government since its nationalization in the 1970s, has a relatively small natural gas business today, which focuses on meeting local demand. Nasser wants to change that, starting gas exports both from fields in Saudi Arabia but also from outside the kingdom.

“We are in discussions with Russia, Australia, America and Africa,” Nasser said, declining to name any of the companies involved in the talks. In the past, Saudi officials have said the kingdom is talking about taking a stake in a Russian project known as Arctic LNG 2 controlled by Novatek PJSC.

Saudi Arabia’s efforts to build a global natural gas business



follow in the footsteps of regional rivals, including Qatar, one of the world's largest LNG exporters. The U.S. is also emerging as a large LNG shipper thanks to booming natural gas production from shale fields, from Texas to Pennsylvania.

### **Downstream investments**

The gas shift comes as Aramco also invests heavily in oil refining and petrochemicals, in an effort to secure long-term outlets for its crude production. The company is mulling its first ever international bond later this year to help finance the acquisition of a majority stake in local chemical company Saudi Basic Industries Corp. The kingdom has promised an initial public offering of Aramco by late 2020 or early 2021, after shelving plans originally targeting 2018.

Aramco is also planning to boost the kingdom's domestic use of natural gas, aiming to replace the bulk of the 400,000 bpd or so of crude oil and refined products that Saudi Arabia burns to generate electricity. The oil freed by using gas instead for electricity generation could be exported, earning hard currency.

At peak times during the torrid desert summer, Riyadh burns through as much as 800,000 bpd of crude to produce electricity to meet peak seasonal demand for air conditioning. "We plan to eliminate most oil burning for electricity by 2030," Nasser said. "As a strategy, we will replace oil with gas."

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## **Why Europe Won't Go for**

# American Natural Gas



Washington can promise Europe all it wants, but U.S. domestic politics could change what actually happens.

**by Nikolas K. Gvosdev**

The U.S. national security community can often overlook how U.S. domestic policy can undermine American foreign policy goals. For example, take Secretary of State Mike Pompeo's European tour this past month, and the efforts of Vice President Mike Pence at the Munich Security Conference to rally support for Washington's preferred courses of action. There seems to be a glaring blind spot in how U.S. foreign policy analysts comprehend European resistance to U.S. efforts to increase the pressure on Russia and Iran.

In Hungary, for instance, Pompeo laid out before his hosts in Budapest a proposal to more closely align Hungary's energy imports with its security relationship with the United States. Instead of signing on to Russian proposals to extend its

Turkish Stream pipeline into the heart of central Europe, the Secretary of State encouraged the Hungarians to consider relying on U.S. liquefied natural gas (LNG) exports for their energy needs. Such a proposal would decrease Russian geo-economic influence in Europe and diminish the revenues available to the Kremlin for funding the Russian military. Furthermore, it would reinforce the foundations of the North Atlantic Treaty Organization alliance, on the grounds that allies not only defend each other, but they also buy essential goods and services from each other.

Pompeo's proffer received a cool shoulder. Of course, it is natural to point the finger at Russia's adept usage of tools of influence, especially financial, to keep government officials in favor of Russian projects. But that is not the complete story. Politicians in Europe, particularly when it comes to energy issues, are reluctant to eschew existing, proven and reliable suppliers of energy for projects that may not be realized.

It is very true that over the past several years, U.S. exports of energy have exploded onto world markets, as new technologies and methods unlock the hydrocarbon bounty latent in U.S. soil. Yet these methods are not universally accepted across the American political spectrum, and the apparent return to dependence on oil and gas is criticized by a number of leading U.S. political figures. Moreover, the long and torturous political saga of the Keystone pipeline shows that a geo-economic strategy of maximizing North American energy development and exports engenders significant domestic political resistance.

President Donald Trump adds a new political wildcard to the question. The direction in U.S. politics over the past few years has been for Trump's political competitors to oppose his policy agenda even if, prior to 2016, they supported specific proposals themselves. To the extent that expanding U.S. energy exports is a signature issue embraced by the Trump

administration, it becomes easier for those running against Trump and his legacy in the 2020 elections to oppose such efforts. By doing so, they stand to gain the support and activism of those domestic political groups who for environmental or other reasons oppose the expansion of the domestic hydrocarbon industry.

Imagine that I am a Bulgarian, Hungarian, or Austrian politician who is being offered a definitive Russian commitment to sell and market natural gas. Or imagine that I am a German or French leader who believes that, in the long term, Iran's energy reserves are crucial for the continent's economic development. Any official U.S. offer of an energy alternative depends, essentially, either on Trump's reelection in 2020 or the unshakeable promise from any of Trump's Republican primary or Democratic general election competitors to honor Trump's commitments. In these circumstances, it is not difficult to see why Europeans may hedge their bets. Why bet the proverbial farm on a U.S. LNG supply across the Atlantic if there remains significant doubt as to whether a Democratic successor to Trump—particularly as 2020 candidates endorse the so-called “Green New Deal” with varying degrees of enthusiasm—would continue with such plans?

The Russians are also aided by the reputation that Putin has for “doing what he says” whether with regard to a Syria intervention or the construction of the Kerch Straits bridge—both of which many Washington experts predicted would never happen. With actual pipe being laid across the Black Sea to create a new energy transit route between Russia and European Turkey, southern and central European states will have easy and immediate access to supplies of Russian natural gas. In contrast, U.S. plans to increase exports remain on the drawing board.

Proponents of the Green New Deal and other such measures may be prepared to take the geo-economic tradeoff of short-term Russian advantage in Europe in return for giving the U.S.

longer-term leverage should the new technologies lead to major energy breakthroughs. If so, they should acknowledge that trade-off openly. For Democrats and Republicans who do not, they too must make clear their policy priorities. One lesson from events in Europe this month, however, that cannot be ignored is that U.S. politicians do not have the option of keeping separate their domestic and foreign policy priorities. In short, choices need to be made and owned.

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## **Novatek to bump 2030 LNG production target to 70 mtpa**



**Russia's largest independent natural gas producer and LNG operator, Novatek is looking to revise its liquefied natural gas production plans, reaching 70 million tons per year by 2030.**

In a meeting with the Russian president Putin, Leonid Mikhelson, Novatek's head said the current plans see for production volumes of 57 million tons, but these plans could

be revised upwards in a year or two.

Mikhelson informed the construction on the Yamal LNG project's fourth liquefaction train has started, a brief released by the press office of the Russian president.

The fourth LNG train will have the capacity to produce 900 thousand tons per annum, utilizing the hydrocarbon resources of the South-Tambeyskoye field in the Russian Arctic, bringing the project's total capacity to 17.5 mtpa.

The first LNG Train began production in the fourth quarter of 2017 and Trains 2 and 3 in July 2018 and November 2018, respectively.

Besides Novatek, Yamal LNG's shareholders include France's Total, China's CNPC and Silk Road Fund.

Novatek is also developing the Arctic LNG 2 project envisaging constructing three LNG trains at 6.6 million tons per annum each, using gravity-based structure (GBS) platforms. It is based on the hydrocarbon resources of the Utrenneye field.

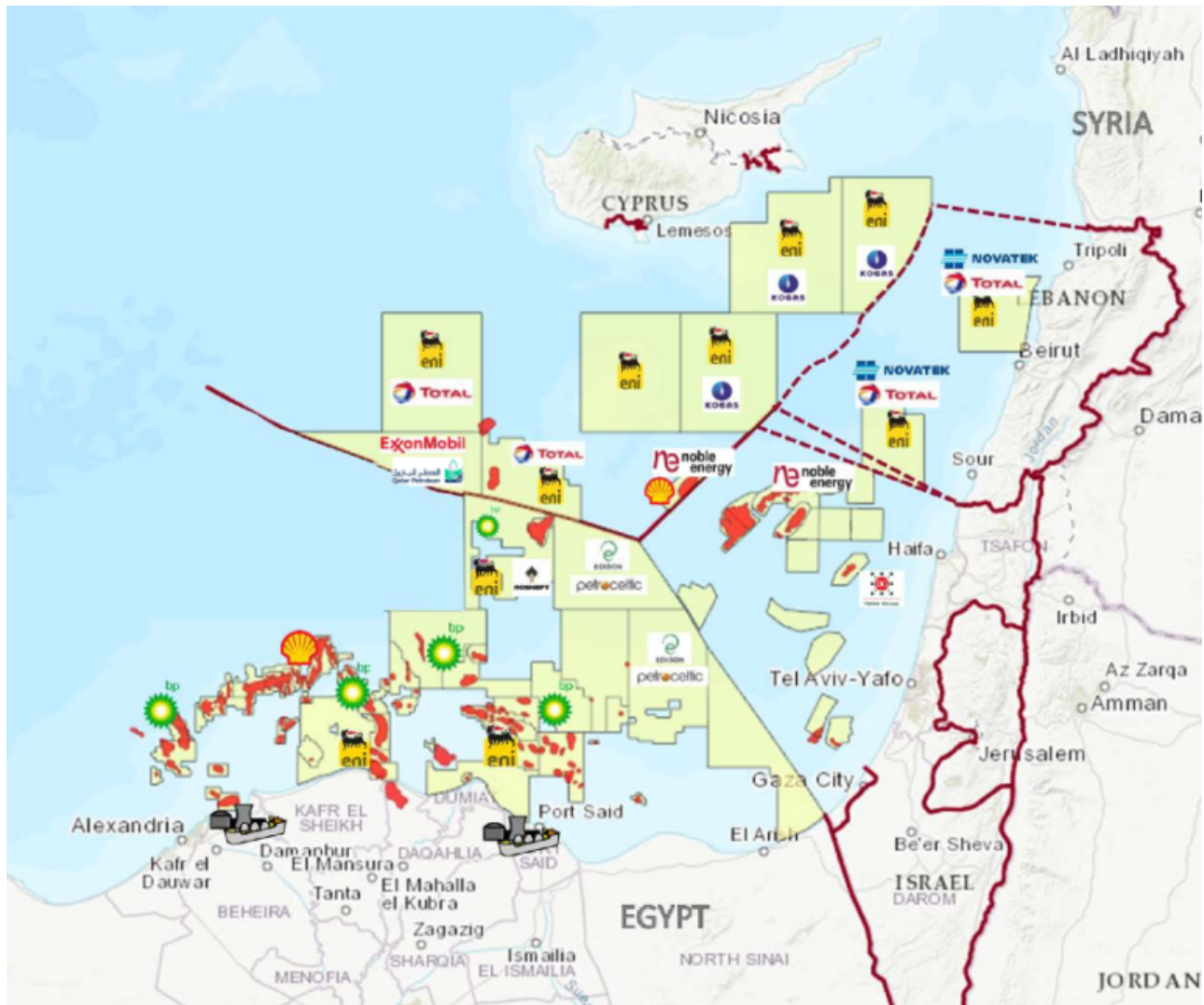
Novatek has already tagged a joint venture between the Italian contractor Saipem and Turkish oil and gas services company Renaissance for the onshore engineering and construction of the GBS platforms.

The company has also signed a contract on compressor equipment for the three liquefaction trains with Siemens.

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## **East Med Gas: The Impact of**

# Global Gas Markets and Prices



Ever since the discovery of the giant gas-fields Tamar, Leviathan and Zohr in the Eastern Mediterranean, the area has attracted growing international attention, with Egypt at the centre of it.

A lot is happening in the Eastern Mediterranean. Aside from the long-standing Cyprus issue and a number of other tense geopolitical standoffs, hydrocarbon exploration and production is taking centre stage, with more expected in the near future (see Figure 1).

The key question, however, revolves less around the size of new discoveries and international investments in the area. More important will be to assess how global gas markets and



prices will affect these discoveries, spurring or dashing the high-hopes of an emerging export-oriented “gas hub” in the Eastern Mediterranean.

As we enter 2019, two events stand out in the region: the drilling by ExxonMobil in block 10 off Cyprus (already in progress) and the potential for a sizable new gas discovery by the Italian company Eni in the Nour North Sinai concession, offshore from Egypt’s Sinai peninsula.

Both are very promising. Should major discoveries be confirmed, for which there are high hopes, these could transform the region, not just in terms of the gas industry and exports, but also geopolitically.

Both developments are happening at a time when Bloomberg forecasts increasing global demand for liquefied natural gas (LNG) with a gap between demand and supplies developing after about 2025 if one follows its base projections (see Figure 2), or earlier, if higher demands actually materialise.

This would open opportunities for LNG exports from the region, from both Egypt and Cyprus. But there will be strong competition from new projects emerging in North America, Qatar, Africa, Australia and Russia.

The global gas and LNG market is in a state of flux. This is driven in part by China’s slowing economic growth, but also due to concerns about the global economy, with global GDP growth expected to slow over the next few years.[5]

Sanctions and the trade war between the US and China are posing increasing threats to global LNG trading. These have brought home to China its vulnerability in energy supplies, where these rely mostly on imports. On top of this, China is going through an economic slowdown, expected to be long-lasting.

In response to these developments, China moved to change its energy policies in mid-2018, allowing regional governments to increase clean coal production and consumption.[6]

Combined with a rapid increase in renewables and nuclear capacity, China is countering these threats by boosting indigenous resources. In doing so, it has relaxed its clean air policies that led to the massive increase in LNG demand in late 2017 and for most of 2018. In addition, the Power of Siberia pipeline, with 38 billion cubic metres (bcm) per year capacity, is expected to start delivering gas to China in 2019.[7]

Meanwhile, in mid-2018, Japan also released its new energy plan to 2030, which includes a return to nuclear power and a reduction in the use of imported LNG, a process that has already started. On this latter aspect, Tokyo aims to reduce LNG imports from 84 million tonnes in 2017 to 62 million tonnes a year by 2030.[8] South Korea is also moving in a similar direction, continuing to rely on nuclear and coal power to the middle of the next decade.

Moving to India, while there is much talk about increased gas use in the future, New Delhi's pipeline infrastructure cannot handle increased LNG imports beyond the existing import terminal capacity of 30 million tonnes a year.[9] Building new pipelines is very challenging, not least due to complex right-of-way processes. New Delhi is also not giving up coal – quite the contrary. The priority in India is a rapid increase in cheap renewables, with a target to increase capacity to 175 gigawatts (GW) by 2022.

These developments are already having an impact on prices and are slowing LNG demand in Asia.

Looking to Europe does not provide much respite either. Europe is well supplied with gas. At the Platts gas and LNG conference in London last October, Gazprom confirmed it

could sell gas at 4 US dollars per million British thermal units (mmBTU) and still make a profit.[10] In addition, US LNG companies are confident they will increase their sales to Europe at about 6.5 dollars/mmBTU.

Longer term gas price forecasts made at the international gas and LNG conferences in October and November 2018 confirmed that, with record LNG supply, by mid-2020s spot LNG prices will return back to about 8 dollars/mmBTU in Japan and 6 dollars/mmBTU in north-western Europe.[11]

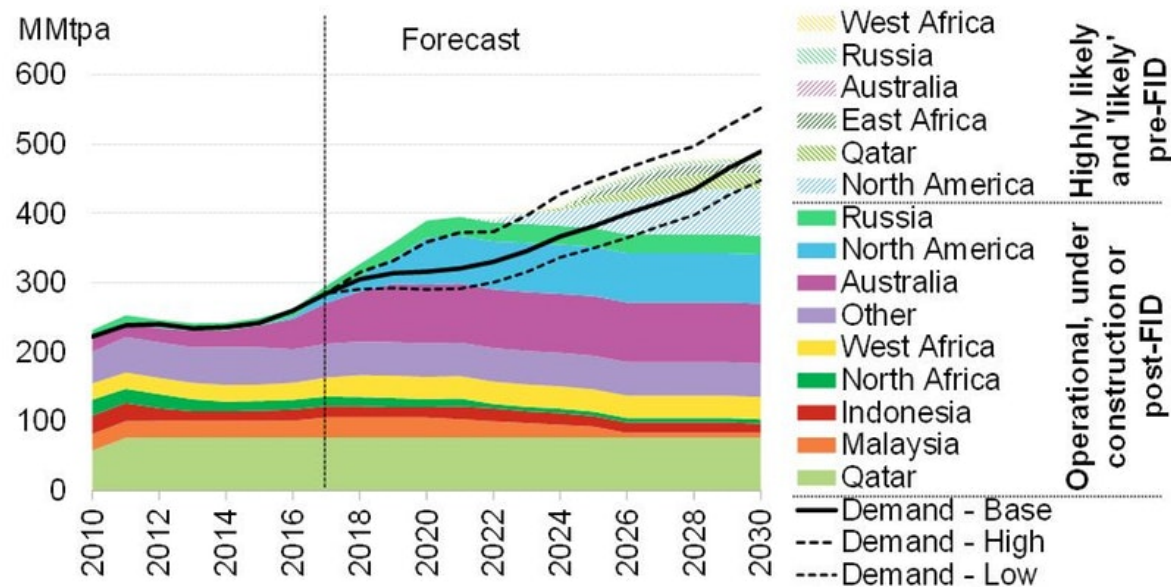
East Med gas will have to compete with such prices if it is to secure export markets. With US shale on the resurgence, renewables penetration becoming an unstoppable phenomenon and coal holding its own competition to secure markets is going to be as fierce as ever.[12]

Global LNG demand can of course be expected to increase but, given recent developments in Asia, it will probably be nearer to Bloomberg's base projections (see Figure 2).[13] Moreover, such increases will be price-driven.

New LNG projects in Qatar and North America, which are at an advanced stage of approval, may lead to supplies in excess of Bloomberg's base projections, with the risk that over-supply may extend to the end of the next decade, keeping prices low.

**Figure 2 | Global LNG supply and demand capacity**

## Global LNG demand and supply capacity



Note: 'Highly-likely' and 'likely' pre-FID projects are included on this chart. The likelihood of a project being built by 2030 is assessed based on the project's regulatory stage, project size, infrastructures, developers' financial strength, offtake contracts, and sovereign risks.

Source: Bloomberg New Energy Finance, Poten & Partners, customs data.

Source: Maggie Kuang, "The Future of LNG", cit.

New energy outlooks expect a peak in fossil fuel demand in the 2030s,[14] warning that expensive gas could hasten the penetration of renewables and lead to a faster decline in hydrocarbon use. On the other hand, with low prices, gas could continue doing well.

International efforts to combat climate change can also be expected to impact the global energy market, including East Med gas.[15]

The EU has upped its 2030 climate targets, with renewables set to account for 32 per cent, energy efficiency 32.5 per cent and CO2 emissions reductions at 40 per cent in comparison to 1990 levels.[16] In addition, carbon pricing is increasing fast, promoting renewables and impacting fossil fuels. Renewables accounted for over 70 per cent of net additions to global power generation capacity in 2017. They now comprise over 26 per cent of global electricity.

While major oil and gas companies remain steadfast in their defence of the industry, the risk of increased divestment by

the insurance industry and institutional investors, as well as litigation by activists, do pose threats to the industry.

As a result, and in addition to pursuing exports, Eastern Mediterranean countries should consider ways to maximise use of discovered gas in the region.

ExxonMobil's Vice-President of Europe, Russia and the Caspian, Tristan Asprey, made clear at the Economist Summit in Nicosia in November 2018 that competitiveness will be essential in demonstrating commercial viability of an LNG export project in Cyprus.[17]

As also stated at the Economist Summit, there is a need to find ways to reduce regional geopolitical risk. LNG projects involve multi-billion dollar investments, the returns from which take decades to materialise. Such projects and investments need certainties.

Among the key challenges is Turkey's effectively untenable position that islands, including Cyprus, are not entitled to Exclusive Economic Zones (EEZs). Turkey does not recognise the United Nations Convention on the Law of the Sea (UNCLOS) and takes the view that mainland continental shelves take precedence over islands.

On this basis, Turkish authorities continue to challenge Cyprus's right to develop its EEZ, disputing all related hydrocarbon activity. However, this is at odds with the EU, the US and the international community who recognise Cyprus's rights to its EEZ and its exploitation for the benefit of all Cypriots.

Overall, the Eastern Mediterranean still has strong prospects for more gas discoveries, especially ExxonMobil in Cyprus and Eni at Noor in Egypt, but unlocking this potential by securing export markets remains a challenge due to global markets, price viability and the fraught geopolitics of the region.

A prerequisite for further integration and realisation of the full gas potential of the Eastern Mediterranean is geopolitical and regional stability through resolution of regional conflicts. The recent establishment of the East Med Gas Forum should contribute to this and is a welcome development.[18] The EU and the US could also play a central role by putting diplomacy into action and developing incentives and disincentives for regional players.

Against this backdrop, a diplomatic solution on Cyprus could go a long way in improving regional geopolitics in the Eastern Mediterranean. But is this likely to happen? There is a glimmer of hope that negotiations may resume mid-2019, but few are holding their breath.

Yet, in addition to looking for exports, which is proving to be challenging, Eastern Mediterranean countries should consider ways to maximise use of this gas regionally, an approach that would likely be more commercially viable and perhaps even lead to increased intra-regional cooperation in the area.

Gas exports from Israel and Cyprus face political and commercial challenges. But with Israeli and Cypriot gas exports to Egypt looking more likely, there is hope for Egypt to emerge as an energy hub in the Eastern Mediterranean, triangulating gas from multiple sources while improving its infrastructure for a better distribution and export potential. Egypt has already turned from an LNG importer to an LNG exporter in 2019, making Egypt the first true “winner” in the emerging East Med gas rush.

\* Charles Ellinas is CEO of EC Cyprus Natural Hydrocarbons Company Ltd (eCNHC), Nicosia, and nonresident Senior Fellow with the Atlantic Council’s Global Energy Center.

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## **Egypt raises LNG exports from Idku to 800 mln cbf/d**



CAIRO, Feb 27 (Reuters) – Egypt is currently exporting 800 million cubic feet of liquefied natural gas (LNG) per day from its Idku export plant, 's the petroleum minister has told financial newspaper Al-Borsa.

Egypt said it exported about 520 million cubic feet per day of LNG in early January and 300 million cubic feet per day in 2018.

The gas is exported from Idku by Malaysia's Petronas, Royal Dutch Shell, and Egypt's two main state oil and gas companies.

Egypt, which became self-sufficient in natural gas in late 2018, is seeking to become a regional hub for energy trading by liquefying gas and re-exporting it.

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## **Israel's East Mediterranean Pipeline Dreams Fading as Egypt, Cyprus Go It Alone**



While Israeli leaders have turned their attention to campaigning for the April 9 election, Cyprus and Egypt have been working behind the country's back to advance plans for an undersea gas pipeline.

Cyprus and Egypt in September signed an agreement for a subsea pipeline to carry natural gas from Cyprus' Aphrodite field to Egypt. Two weeks ago, the Cypriot cabinet took another step forward by approving the September deal.

In doing so, Cyprus ignored Israeli claims to a portion of Aphrodite, which lies in Israeli economic waters. The Cyprus-Egypt pipeline also weakens the economic justification for the projected East Mediterranean pipeline, a \$7 billion undertaking that would deliver Israeli and Cypriot natural gas directly to Europe via Greece.

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# Anastasiades, Akinci agree on confidence-building measures



‘Regarding confidence-building measures, the leaders committed to intensifying the work of the Technical Committees with the objective of improving the daily lives of all Cypriots.’

The President of Cyprus, Nikos Anastasiades, and Turkish-Cypriot leader Mustafa Akinci agreed at a meeting today to implement confidence-building measures (CBMs) mainly in the sectors of telephony and electricity grids.

The move comes a year-and-a-half after the collapse of Cyprus settlement talks at Crans Montana, Switzerland with a new push to jump-start the talks underway.

It also comes amidst bellicose moves by Ankara to impede and undermine the hydrocarbons programme of the Republic of Cyprus and to conduct illegal drilling in Cyprus’ Exclusive which for many renders the need for a settlement all the more pressing.

The talks were conducted under the auspices of UN Cyprus envoy Elizabeth Spehar.

A lengthy statement issued by the spokesperson of the United Nations in Cyprus today offered details about the CBMs and left open the prospect of agreeing to more such measures.

*The full text of the statement is as follows:*

“Today, the Turkish Cypriot leader, Mr. Mustafa Akıncı, and the Greek Cypriot leader, Mr. Nicos Anastasiades, met at the Chief of Mission’s residence in the United Nations Protected Area under the auspices of Special Representative/Deputy Special Adviser to the Secretary-General on Cyprus, Ms. Elizabeth Spehar.

They had a constructive exchange of views in a cordial atmosphere. Mr. Anastasiades presented his ideas on decentralization and the two leaders discussed in depth the basic principles.

Regarding confidence-building measures, the leaders committed to intensifying the work of the Technical Committees with the objective of improving the daily lives of all Cypriots.

The two leaders decided to implement the confidence-building measure regarding mobile phone interoperability through separate agreements of the operators on both sides with a hub based in Europe, in order to facilitate greater interaction between the two communities.

They announced that the inter-connectivity of the two electricity grids, as agreed in 2015, has now been achieved. In this regard, they decided to make the temporary electricity supply arrangement permanent and without restriction. They acknowledged that the transfer of electricity will continue on an as-needed basis.

The leaders agreed to the clearance of nine suspected

hazardous areas on both sides of the island, with a view to working towards a mine-free Cyprus.

As a gesture of good will, Mr. Akıncı conveyed the decision of the Turkish Cypriot side to return paintings by Greek Cypriot artists that remained under protection on the Turkish Cypriot side since 1974.

Mr. Anastasiades similarly conveyed to Mr. Akıncı the Greek Cypriot side's decision to hand over visual and audio recordings of Turkish Cypriot artists that exist in the archives of the CyBC, belonging to the pre-1963 period.

The two leaders have tasked the Technical Committee on Culture to realize the exchange of these invaluable works of art, belonging to the respective communities.

Mr. Anastasiades and Mr. Akıncı also discussed additional potential confidence-building measures.”

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## **Cyprus: likely gas field find raises prospect of tension with Turkey**



Tensions between Cyprus and Turkey over energy could soon come to a head, with ExxonMobil apparently poised to announce a significant natural gas find off the divided island's southern coast.

After more than three months of deep-water exploration in the eastern Mediterranean, the US firm is expected to unveil findings this week in what is being described as a seminal moment in the race to tap potentially profitable underwater resources.

Charles Ellinas, an industry expert and former head of Cyprus's national hydrocarbons company, said: "All the seismic data suggests that enough has been found to excite ExxonMobil to continue exploration. Potentially there could be great reserves."

But stakes could not be higher in the region. Amid escalating friction over the potential offshore energy find, Turkey has declared it will dispatch its own drilling ships to the area, a year after deploying gunboats to stop the Italian company Eni exploring for offshore wealth at the behest of Greek Cypriots.



Last week Ankara said natural resources in the eastern Mediterranean and the Aegean, where tensions have also risen with Greece, remained “a strategic goal and national issue”.

“In the coming days we will start drilling with two ships around Cyprus,” said the Turkish foreign minister, Mevlüt Çavuşoğlu, ratcheting up the rhetoric. “Let those who come to the region from far away, and their companies, see that nothing can be done in that region without us. Nothing can be done in the Mediterranean without Turkey; we will not allow it.”

Gas fields were first discovered in waters off Cyprus in 2011. ExxonMobil, one of five international oil companies exploring around the island, has focused on Block 10, adjacent to Egypt’s giant Zohr field, which is believed to be the most promising of all the licensed areas.

If unlocked, the deposits beneath the seabed could radically reshape energy geopolitics and – western politicians hope – ultimately lessen Europe’s reliance on Russia for gas.

In ethnically split Cyprus, the prospect of an energy bonanza is also seen as a potential game changer that could help reconcile the island’s rival Greek and Turkish communities.

“If there is a big find, there’ll be big stakes backed up by a huge American company,” said Hubert Faustmann, a professor of history and political science at the University of Nicosia. “It could be a blessing that will help end the seemingly intractable Cyprus problem. Even without a solution, there will be a lot of pressure to allow exploitation of the hydrocarbons.”

But with Ankara disputing Nicosia’s maritime jurisdiction in seas riven with competing claims over boundaries – and increasingly incensed over energy agreements the island has signed with Greece, Israel and Egypt – a major discovery could also trigger other dynamics. In the worst-case scenario,

military conflict could break out, analysts believe.

"The situation is escalating rather than de-escalating because Turkey is determined to stop exploitation of any resources in Cyprus' exclusive economic zone (EEZ) without its consent and if Turkish Cypriots don't also benefit from them," Faustmann said.

Although experts caution that the reserves' commerciality is still far from assured, an air of optimism has filled Nicosia's colonial-era presidential palace. Some officials go as far as to speak of the European Union's easternmost member becoming a "new Kuwait", enriched by its role as a gas-producing hub.

"If it is a substantial reserve, a lot of things are going to change," said the government spokesman Prodromos Prodromou, conceding that underwater resources could be decisive in breaking the impasse in talks to reunify the island.

"A find of some magnitude could act as an incentive for Turkey to discuss a solution and compromise, but it is true the reaction could also be negative. [Turkey's president] Erdoğan is unpredictable."

Cyprus has been partitioned between Turks in the north and a majority Greek population in the south since a short-lived coup, inspired by Athens and aimed at union with Greece, sparked Ankara to order a full-scale invasion in 1974.

After seizing the island's northern third, up to 40,000 Turkish troops were stationed in the enclave, and Turkish Cypriots unilaterally proclaimed independence in 1981. Ever since, Turkey has refused to recognise the Republic of Cyprus or its claim to an exclusive economic zone in the seas beyond its coast.

Hydrocarbons are expected to be high on the agenda when President Nicos Anastasiades, who heads the internationally

recognised south, meets the Turkish-Cypriot leader Mustafa Akıncı on Tuesday. The two men have had little contact since the collapse of reunification talks in 2017, when negotiations came closer than at any other time to resolving the west's longest-running dispute.

After years of foot-dragging, and in a clear effort to resolve the brewing crisis, Anastasiades' government edged closer this month to creating a sovereign fund to manage revenues from reserves and ensure they are shared equitably between both communities. "It will send the message that when the time comes the money will be shared," said Prodromou of the fund due to be passed into law within days. "They won't be able to say that Greek Cypriots are taking advantage of Turkish Cypriots' interests."

But Turkey, the only country to recognise the island's breakaway north, argues the offshore wealth should be part of a comprehensive Cyprus settlement.

At a time when markets are flooded by cheap gas, industry experts say there is little prospect of any discovery becoming commercially viable anytime soon, even if demand is also growing.

"ExxonMobil is looking for substantial quantities of gas to support its ultimate plan to build a liquefaction plant in Cyprus," said Ellinas, a senior fellow at the Atlantic Council's global energy centre. "This is only the beginning."

But, in the meantime, there are fears that Ankara's threat to embark on drilling operations off Cyprus – despite strident criticism from the EU over the need "to respect the sovereignty of member states" – could take the battle over hydrocarbons to new and dangerous heights.

"If Turkey does start drilling, as it has threatened, in Cyprus' exclusive economic zone, it will be very, very provocative," said Ellinas. "Suppose they actually find gas:

what are they going to do then? It will turn everything upside down."