

CYPRUS' ROLE IN EAST MED: PLAN A AND PLAN B

By: Natural Gas Europe

Published February 20, 2014

Cyprus still harbors big hopes for the installation of an LNG plant at Vasilikos, according to [Charles Ellinas](#), until recently Executive President, Cyprus National Hydrocarbons Company, but his country's role in the Eastern Mediterranean natural gas context may be receding.

Mr. Ellinas offered an exclusive interview on those plans to *Natural Gas Europe* at the [European Gas Conference 2014](#) in Vienna, Austria.

Commencement of construction at Vasilikos could have begun in 2016, potentially creating a lot of jobs for the island's shaky economy and eventually bringing gas to Cyprus for generating electricity before the end of the decade. Mr. Ellinas observes: "These plans seem to be slipping away from us," explaining that the amount of gas in Cyprus' Aphrodite field is not enough to proceed with the regional Vasilikos plan.

"If we were to proceed in the near future we would need gas from Leviathan – from Israel – but that may not be a priority in Israel right now: [Delek Group](#) and [Noble Energy](#) have published preliminary plans for a phased development of Leviathan, and while these might involve Cyprus later on it is not a priority issue; there appears to be a higher priority to export gas to Turkey than to Cyprus," he explains.

For Cyprus, he says, without Leviathan gas it could add another 4 years to its plans, "because the gas will then only come from the exploration activities of [TOTAL](#) and [ENI](#), given that ENI will start their exploration drilling towards the end of this year and TOTAL early next year, with results becoming available towards the end of 2015. Then they'll need to follow up with appraisal drilling, so it will be the end of 2017 at the earliest before they're in a position to make plans for export and field development. That takes us well into the future."

On that basis, Mr. Ellinas estimates that it could be 2024-25 before Cyprus can export gas.

"In my view, we should be knocking on the door of Israel more forcefully and trying to use this very good political relationship to convince them that sending gas to Cyprus will be beneficial for everyone," he says, "But it's slipping away from us and we may end up going into the longer term."

If the idea for an LNG plant at Vasilikos recedes, one other tactic, he offers, would be to encourage Noble to proceed with the development of Cyprus' Aphrodite field based on exports to other markets rather than on LNG. "There are quite a few local markets in the Mediterranean Sea which can absorb the amount of gas we have in Aphrodite – that should also be a priority issue, but I think in a way we're closing a door to that because we've recently released a new tender for interim gas supply to Cyprus.

"If that tender succeeds, we will be locked into gas imports over the next 7-10 years, and if that happens, any other development that involves bringing gas to Cyprus earlier than that will not be possible."

Still, he says that all the options should be looked into, in the context of a strategic gas plan.

"Ultimately, though, whatever happens the gas will be developed and there is sufficient gas in the East Med, I believe, over 120 tcf based on indications so far. This could make an impact on Europe because of its location. We will know by the end of 2015 how much there is," says Mr. Ellinas.

He opines that TOTAL and ENI specifically chose Cyprus because of its location, proximity to Europe, and ultimately will develop the gas from the region and take it to their own markets in Europe. "I think the trick for us in Cyprus as a country, is how to benefit from it, because if we're not careful they will lead developments and we will just take what comes our way."

Referring to price estimates at the conference in Vienna, Mr. Ellinas says there was much talk of Europe's gas demand and prices, which were not very high: "USD 9.50-10/MM Btu after 2020 will make it a challenge for us, because if we were to export our gas to Europe and production costs were USD 8-9, the margins are minute. So all of these issues need to be looked into and planned carefully."

Despite this, he says, he believes Europe will become the main destination for Cypriot gas, because of the likely delays in developing the gas fields. "If it happens that way the Eastern LNG markets will be saturated," he explains. "There are too many players concentrated on selling to the Far East markets and if they're saturated then the next port of call is Europe, which politically would be good for us."

Mr. Ellinas is frank about the intentions of Cyprus: "We want to become an energy hub. If we don't manage to get the LNG project at Vasilikos off the ground, Cyprus will still become an energy center – not necessarily a hub – in terms of all of the service companies that will be servicing the offshore developments whose natural place to base their operations will be Cyprus, as a country within the EU, because its much more challenging to go to Lebanon, Israel, Egypt."

Cyprus, he emphasizes, is within the European Union and thus has harmonized laws, banking systems, etc. that obey European regulations. "So Cyprus provides a good base for these companies. Right now, most of the activity is exploration for the next 4-5 years, but after that companies will be looking at production."

There's a lot to do, he says.

“If the region has over 120 TCF of gas there will be a lot of development. If Cyprus becomes a center for these service companies it's going to generate a lot of activity, a lot of employment which is desperately needed – unemployment this last year may reach 20%. So all of these things are needed and encouraged.

“From that standpoint, we will get something valuable, but will get more if we develop our gas in a more planned way,” he said.

Not so long ago, things looked different, he recalls. “Israel needed us and they kept telling us as much in 2012-13, but unfortunately last year the companies involved, especially Delek, lost patience. So the last plans I've seen from Noble and Delek for the development of Leviathan are comprised of three phases: Phase I exports to Israel and local markets like Palestine and Jordan – they've signed gas sales agreements with Palestine; Phase II is to go with floating LNG (FLNG) and the negotiations with Woodside to join them are progressing reasonably well,” he says,.

(Editor's note: on 10 February [Woodside Petroleum Ltd](#) and the Leviathan partners - Delek Group Ltd. Ratio Oil Exploration and Noble Energy – inked a Memorandum of Understanding detailing the terms of an impending joint venture deal.)

“However, Israel won't be able to move to the next stage before the end of the year, citing the taxation problems as well as monopoly investigation issues as potential obstacles ” opines Mr. Ellinas.

“Nevertheless, these companies have already developed initial plans. Phase III may involve more regional markets like Turkey, but potentially also Cyprus, but Cyprus is not high up on the list right now. Nevertheless there is still an opportunity” he explains.

Another Phase III option, according to him, is Egypt as LNG terminals are sitting there idle, but this would entail major risks given the political instability there.

“If they go for FLNG, it immediately satisfies the export requirement and in Phase III they have the luxury of deciding what to do without needing to rush into anything before they're sure.

“Delek is pushing very hard for gas to Turkey,” he adds, “and they're looking at various options. If the political issue between Cyprus and Turkey persists and they can't put a pipeline from Leviathan to Turkey I believe they may go for CNG at least initially: it's feasible.

“In the meanwhile, developments in Cyprus EEZ may be delayed by up to 4 years. By that time I believe that FLNG will become more established, and will become a major competitor to any land-based facilities at Vasilikos.”

He says that projects like Prelude FLNG are coming to completion, meaning the experience with such facilities will be there, and unit costs will come down; use of FLNG

in the East Med may become a standard, and this could mean that TOTAL and ENI use it instead of land-based LNG.

Mr. Ellinas offers, "I still feel that if we in Cyprus worked on Leviathan's Phase III hard now and convinced the Israelis that we'd be the best choice for Phase III it could benefit both countries, but what I'm seeing so far is not pointing in that direction but in the direction of Turkey before anything else. Even then, Cyprus may still be accommodated as Israel, for security reasons, would prefer to go for multiple options"

This is prickly for the fact that Cyprus, he says, would not accept a pipeline going through its exclusive economic zone (EEZ) until the Cyprus problems are resolved. "If they reach a CNG agreement, they could still export a lot of gas to Turkey using CNG."

With over three decades of international experience in the hydrocarbons business in lead positions, mostly based in the UK, Charles Ellinas says he wanted to take his expertise back home to Cyprus: "That's why I went back; I was hoping to be able to do that, but islands tend to be isolated and expectations that one might have about how things should develop or happen can run up against it."

Small, island countries, he says, are driven mostly by politics, not necessarily by technical and commercial issues. "Still, East Med and Cyprus have a lot to look forward to and the gas resources of the region will be developed sooner or later for the benefit of all. I still want to contribute to this."