

Cyprus gas sector: export strategy, transparency and revenue management

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Lebanon and Cyprus agreed to reinforce their energy cooperation. A delegation headed by caretaker Energy Minister Gebran Bassil [visited Cyprus on 7-8 November](#). The discussions, which involved export options, the joint development and exploitation of common hydrocarbon fields and the maritime border dispute between Lebanon and Israel in which Cyprus is implicated, have set the basis for a closer energy cooperation between the two countries. The normally excellent relations between Lebanon and Cyprus have been through ups and downs since 2007. Maritime border delimitations in the Eastern Mediterranean, necessary for offshore oil and gas exploration, have created additional disputes in the region. But the prospects of exploiting offshore resources is also reviving diplomatic initiatives: Discussions to resume negotiations to solve the Cyprus problem are underway, and US mediation efforts to settle the maritime border dispute between Lebanon and Israel are said to have reached an advanced stage.

Cyprus once again matters for Lebanon. But unlike in previous years, when cooperation was primarily driven by repeated conflicts in Lebanon, oil and gas resources off the coasts of Lebanon and Cyprus open the way for another type of exchange between the two countries. Following Bassil's visit to Cyprus, Middle East Strategic Perspectives wishes to shed light on the Cypriot gas sector. As part of our series of discussions with experts and professionals working in the oil and gas industry we asked Fiona Mullen, co-founder of [Strata Insight](#), a partner consultancy based in Cyprus, to give us her opinion on Cyprus' export strategy and sector management.

1) Will the results of Aphrodite appraisal drilling impact Cyprus's export strategy?

The government's official line remains that LNG is its chosen option for natural gas exports, even after the latest results of the Aphrodite well that gave an average resource estimate of 5 tcf. However, there is a slow realization that they will need to find more gas to make that plan viable, and that therefore they will have to wait rather longer for gas revenues. Two developments could change this. First, the government has still not yet made up its mind what option it wants for the "interim solution", namely imported natural gas, and it could take the plunge for the as yet untested CNG option. Those who promote CNG say it is better for smaller fields, so if future drilling produces only small finds, rather than bigger ones that would make LNG viable, then you might see the CNG option coming out as an option for exports as well. Second, if there is a sudden resolution of the Cyprus problem and Greek Cypriots could get comfortable selling their best export to Turkey, then a pipeline to Turkey would start to look like the more desirable, quicker and cheaper option, especially as Israeli and Turkish companies are already lobbying their own governments for this.

2) Back in September 2013, Lebanese [Energy Minister Gebran Bassil](#) told MESP that if Cyprus' plan to build an LNG plant does not materialize, the Cypriots should consider joint

projects with Lebanon, including exporting gas through Lebanon. Why do you think Cypriot officials never really explored this option?

I think that this is a mixture of the practical and the geopolitical. Cyprus has thrown its weight behind working with Israel, not only because they have proven reserves that they are already extracting but because Cyprus sees Israel as a counter-weight power to Turkey in the region. So Lebanon somewhat missed the boat by coming with this option later on. But I would not dismiss cooperation with Lebanon altogether, especially if the LNG option starts to fade into the distance.

3) How is Cyprus planning to manage revenues arising from the gas sector? Will revenues be used to pay off debt? Or placed in a sovereign wealth fund?

The short answer is that we do not know yet. The troika of international lenders has asked the government to come up with a strategic plan for gas but the deadline for that keeps being shifted. The IMF is also working with the government on devising a Sovereign Wealth Fund. In the past, before the crisis, the previous commerce minister said that the bulk of the revenues would go to future generations. But that was before we took on EUR 10 bn in debt from the troika, so in the end it will probably be a mix of debt pay-off and savings.

4) How do you evaluate the transparency of the process so far? Is there a clear delimitation between policy making, execution and monitoring?

At the risk of being undiplomatic, I would say that so far policy has been a mess. Outsiders cannot work out who is control of gas policy, what institutions are involved in gas policy and how long these institutions or the people running them will last. For example, the National Oil and Gas Company (KRETYK), looks like it will be dissolved almost as soon as it was created and there are lots of other institutions and bodies involved in gas. This is a by-product of the political infighting over who gets to control the natural resource and gives a very bad message to investors. I hope that this settles down in the next year or so.