EASTERN MEDITERRANEAN: COMPANIES FEEL THE IMPACT OF DECLINING OIL PRICES

The decline in global oil prices continues to weigh on oil and gas companies. Despite modest gains, analysts seem to agree that triple-digit prices are not expected on the short to medium terms, bar a major catastrophe. This has forced companies to consider certain measures, such as cutting down their budget, abandoning costly projects, selling assets or even mergers.

The Eastern Mediterranean is not an easy environment. Low prices will affect deep-water activities and could drive certain companies to reconsider certain projects that could become unprofitable. Under current market conditions, the prospects for upstream activity in the East Mediterranean is not particularly favorable, although other elements may be considered when it comes to the decision to be involved in a country's oil and gas sector. A nuclear agreement with Iran and the lifting of sanctions could drive global prices even lower. Such developments could make the Eastern Mediterranean a difficult environment for medium-sized companies.

In light of the above, oil and gas companies operating in this region have had to adapt to this new context. The following is a list of some of the measures they have taken recently to deal with current market conditions:

Noble Energy:

- Capital expenditures cut by 40% to $2.9 billion (focusing on U.S. shale plays and projects in the Gulf of Mexico).
- Exploration, down to about 5% of its budget, will focus on prospects in Cameroon and the Falkland Islands.
- Around 10% of Noble Energy's staff were laid off (about 220 people), as part of cost-cutting measures.
- Exploratory drilling in Cyprus' block 12 is put on hold.
- Further investments in Israel's Tamar and Leviathan's projects to be suspended (until regulatory issues are solved).

Total:

- More than 10% decrease of capital expenditures, to between $23-24 billion.
- Increase of operations saving to $1.2 billion.
- Exploration cut by 30% to $1.9 billion in 2015 (compared to more than $2.5 billion in 2014). Among the key focus areas: Kurdistan and Egypt.
- Expects to sell $5 billion in assets in 2015.
- The group will let go of 2,000 jobs globally by the end of 2015.
- Total, which was awarded a license for blocks 10 and 11 in Cyprus' EEZ, was supposed to carry out exploratory drilling in the second half of 2015. After failing to identify targets for drilling, Total was reportedly prepared to pull out and pay a penalty rather than proceed with drilling. Cypriot authorities offered to extend its exploration program until February 2016. The company will be conducting additional surveys, but no drilling, in and around block 11. Block 10 was let go.

ENI:

- Investments for the period 2015-2018 will be cut by 17%, to €48 billion, and will stand at about $11.6 billion in 2015.
- Plans to sell assets worth €8 billion (70% of which will be put up for sale by the end of 2015).
- ENI is the first large oil and gas company to cut dividend. It will pay a 2015 dividend of 0.8 euros per share (compared to 1.12 euros for 2014).
- Cyprus: Although it is legally bound to conduct four wells in its current exploration program, ENI is putting further exploratory drilling on hold after drilling two unsuccessful wells in Cyprus' EEZ, and is seeking an extension of its exploration license.