

THE THIRD CLUB: THE STRATEGIC SIGNIFICANCE OF CYPRIOT NATURAL GAS

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The discovery of the around 200 billion cubic meters (bcm) capacity Aphrodite field in December 2011 heralded the participation of Cyprus in an exclusive club and constituted the first major hydrocarbons find in the Exclusive Economic Zone (EEZ) of an EU Mediterranean state for almost a decade. Following its admission in the EU in 2004 and its participation in the Eurozone area in 2008, Cyprus can proudly claim that it now has the capacity to emerge as a major net exporting state in ways which will not only revitalize its own economy but also contribute to the success of a principal energy security objective for the entire EU: the supply of European gas to European markets and the simultaneous transportation of non-Russian EU exports through an EU state with minimal transit risk.

If Nicosia successfully utilizes this strategic opportunity it will not only consolidate its position within the hard core of the EU and the Eurozone but also manage to revive its economic fortunes and negotiate the implementation of its own EU bailout programme from a position of increasing leverage. This is not a “theoretical” argument. The energy industry, and most importantly the development of hydrocarbon resources, is one of the most investment-intensive industries in the world. For every €1 invested directly in the development of oil & gas reserves another €5 are invested in the peripheral industries supporting the exploration, production, refinement, and transportation of hydrocarbons. Most importantly for a country in the midst of recession which also finds itself on the edge of a perilous EU-bailout programme, the discovery of more hydrocarbon resources can prove to be a major investment attraction that would help Nicosia to secure the right balance between austerity and development.

The benefits of pragmatic energy policy can be both immediate and tangible. If Nicosia is able over the course of 2013 to sign Exploration/Production Agreements for 4-5 of the 12 blocks in its EEZ that it offered during the second concession round (February-May 2012) it could collect – via potential signature bonuses – anywhere from €150-200 million in cash. For an outside observer this amount may appear meager. Yet for Cypriot standards these potential €200 million, regardless of how they could be eventually used, amount to 1/5 of the €1 billion in austerity cuts the Troika demands from Nicosia for the 2012-2015 period.

If Cyprus is able to secure a cost-effective sales imports agreement that would allow it to import 500-700 million cubic meters per year for the 2015-2018 period, it would capitalize on the efficiency of the combined gas cycle turbines it has installed in most of its power plants, significantly reduce the cost of its oil imports bill and limit the greenhouse emissions

for which it would have to pay a higher premium in the European Carbon Trading System (ECTS). More importantly the potential arrival of Cypriot gas to Cyprus circa 2018 will spearhead a dramatic shift in the Republic's energy mix, terminate its gas imports, drastically curtail over a period of 3-5 years its oil imports and precipitate a construction boom as an extended network of high and medium pressure pipelines are built in order to make cheaper and more environmentally friendly electricity, heat and fuel, available to every free Cypriot citizen, business and industry.

All the above can happen without Cyprus exporting a single cubic meter of natural gas, even though a successful export strategy can multiply all the aforementioned benefits several times over. Cyprus is ideally located to emerge as a major gas export hub for reasons other than its geographic proximity to Aphrodite, Ishai and Leviathan. Contrary to Israel, Cyprus does not need more than 30-40 bcm in order to cover its long-term gas needs in the 2015-2035 period. This means that more than 170 bcm from Aphrodite as well as any other discovery made in Cyprus.

If the Cypriot EEZ is confirmed to contain 5 Aphrodite size fields, which according to the analysis of existing 2D/3D seismic studies is not improbable, then Cyprus could be endowed with an exploitable reserve basis of more than 1 trillion cubic meters. Even if only 70% of these potential reserves are exportable – over a 20 years period – Cyprus can claim approximately 870 bcm of prospective gas exports. What would this probability entail for Europe's energy security?

In 2011 the entire EU consumed 448 bcm that accounted for almost 25% of the Union's final energy demand. From 2003 to 2013 the EU and the US invested tens of billions of USD and even greater "amounts" of diplomatic capital to challenge Russian regional supremacy in the South Caucasus and Caspian Sea region in order to (may) be able to import no more than 20 bcm by 2025 all of which would have to transit via the volatile Georgian corridor and Turkey's increasingly vulnerable (to PKK attacks) eastern provinces. Cypriot, Israeli and (in the longer term) Lebanese gas exports liquefied in different LNG trains/terminals build, owned and operated by different consortia in Vasilikos (and in the longer term Pafos and Limassol) could provide Europe with more than 20 bcm by 2025 and at no considerable transit risk.