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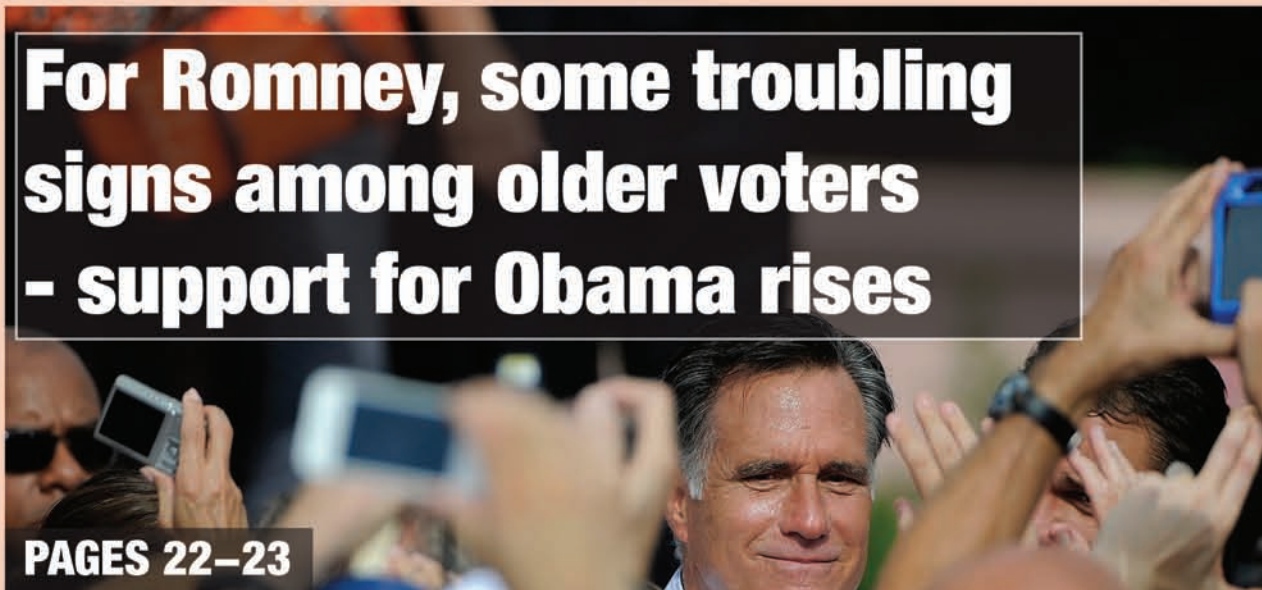


Oct 15 is L-Day

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Oct 15 is L-Day

- **First natgas bidders for Block 3**
- **Cyprus to help mediate in Lebanon-Israel row**

Cyprus will start negotiating with the successful bidders for natural gas exploration in Block 3 of the Exclusive Economic Zone on October 15, with the remaining bidders for Blocks 2 and 9 expected to be announced in November, according to senior government officials.

A mix of 15 bidders applied for rights to explore nine blocks in the offshore natural gas licensing round in May. These include international heavyweights Total, Petronas, Gazprom, Marathon and ENI.

Solon Kasinis, Director of Energy at the Ministry of Commerce and Industry, said on the sidelines of a hydrocarbons exhibition in London that negotiations with the successful bidders will start in October.

"The process will start with the highest bidder in each case," Kasinis said, adding that if these talks fail, then the Minister of Commerce will move on to the next-best bidder. It seems that 3-D surveys have been completed for Block 3, adjacent to Lebanon's EEZ, making it the first that can undergo drilling tests and further geological surveys over the next two years. The next offshore plots that will be up for grabs will be Blocks 9 and 2, mainly because of their proximity to Noble Energy's Block 12, where proven reserves of an average 7 trillion cubic feet were announced last December.

Kasinis said that negotiations are already underway with US-based Noble and junior partner Delek of Israel, for the upstream infrastructure projects that will pipe natural gas finds from future platforms to land-based facilities for degasification or liquefaction.

The government official said that the aim is for Cyprus to start receiving natural gas from nearby Israeli fields "over the next few years", while by 2019, "Cyprus will have its own liquefied natural gas (LNG) supply which we will also be able to export to Europe or Asia."

Commerce Minister Neoclis Sylikiotis told the "European Mediterranean Oil & Gas Exploration & Production Summit" in Larnaca this week that Cyprus "will start negotiating some blocks in October, ahead of the November 11 deadline."

He said that talks with successful bidders will start with the "uncontroversial blocks", probably 9 and 2, and will delay or postpone any bids on Blocks 1, 4, 5, 6 and 7 on which Turkey has laid claims and has sent out navy ships and surveying vessels, in violation of international agreements and the Law of the Seas.

"Cyprus may become a major and alternative hub for LNG within the European Union and towards the rest of the world," Sylikiotis told conference delegates.

"The positive finds (of natural gas deposits) will also ensure Cyprus' independence from international energy markets."

Kasinis said that Israel has proposed relaxed restrictions with Cyprus as far as future exports of natural gas are concerned, so that Cyprus can become its window to Europe by 2017.

Should Cyprus go ahead alone, he said, the deadline for the extraction of natural gas can be extended to 2018. He also noted that LNG can be exported to Europe and Asia in 2019.

On the start of infrastructure projects, he said discussions are underway with Noble Energy and a decision will be taken on the extent and number of sub-sea pipelines that will be constructed. Noble, Kasinis said, has proposed the construction of a 24-inch pipeline while Cyprus is proposing a 20-inch pipeline.

Cyprus has signed an agreement to delineate its EEZ with Egypt and Israel with a view to exploit any possible natural gas and oil reserves. A similar agreement has been signed with Lebanon but the Parliament in Beirut has not yet ratified it.

THE BIDDERS

Some of the major players, such as BP, Shell, Exxon Mobil and Chevron were not among those bidding to search for hydrocarbons south of the island and near Israeli gas discoveries, suggesting that Turkish threats may have succeeded to scare them away.

Total and Italy's ENI are already involved in other ventures in Turkey, with the French company invited by TPAO to bid for search licenses in the areas off Mersin and Iskenderun, while ENI is a partner in the South Stream and Samsun-Ceyhan pipeline to bypass the Bosphorus Sea.

Gazprom is participating in a joint venture consortium that includes France's Total and Russia's Novatek, in which it is a stakeholder. The Canadian Triple Five Group, that has made extensive promises to invest in Cyprus (but has yet to materialize on any of them), is participating in the Canadian-Indonesian-Cypriot venture of PT Energi and Frastico.

Cyprus-based energy group Petrolina is participating in the OAK Delta consortium.

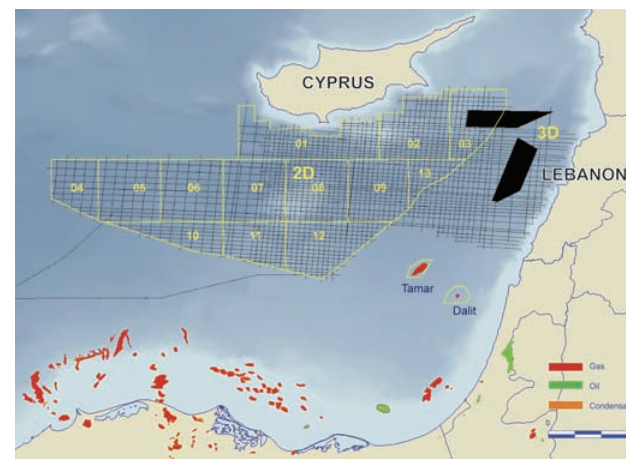
Noble Energy did not participate in the second licensing round, saying, instead, that it wanted to focus further on developing Block 12 where the initial deepwater gas finds were reported last December.

COLD TURKEY

Turkey fired warning shots in May saying that companies bidding to develop Cyprus' offshore gas fields would be shut out of Turkish energy projects.

Although Turkey has few oil and gas reserves of its own, the NATO member retains leverage because of its substantial navy and its role as an important transit hub for energy from Russia and the Caspian Sea region.

Korea's Kogas and Australia's Woodside Energy Holdings are also among the 15 companies who have bid for contracts, while Israel's Delek also has an option to increase its stake in Noble Energy's Block 12 from 15% to 30%.



CO Cyprus Opportunity Energy, part of an Israel-Norwegian consortium that bid for two offshore gas exploration licenses, has listed on the Cyprus Stock Exchange's Emerging Market sector (NEA).

Cyprus, along with Israel and Lebanon, straddle what may be the biggest natural gas find of the past decade in the politically volatile eastern Mediterranean.

The question of who has the right to tap the deposits, which could total more than 100 tcf, has added urgency to efforts to settle the conflict over Cyprus and has also brought Lebanon into dispute with Israel over the Jewish state's discoveries.

HOPES FOR LEBANON

Cyprus Defence Minister Demetris Eliades, who hosts the EU informal defence ministers' meeting this week, returned from an official visit to neighbouring Lebanon where the main topic of discussion was finding peaceful ways to resolve the civil war in Syria.

On the sidelines of his meetings, Eliades said that "there is an initiative underway to help give an overall solution to the issue of the delineation of the area's EEZs and within the context of the ratification of the Cyprus-Lebanon bilateral agreement by the Lebanese parliament, we said that Cyprus is willing to help mediate in an effort that will resolve the conflict."

Eliades said that the U.S. is also taking part in this initiative that aims to give a positive outcome to the whole issue.



Finance: the natural gas challenge

By FIONA MULLEN

Director Sapienta Economics Ltd

Securing finance for major oil and gas projects is one of the key challenges facing the hydrocarbons sector in the current environment, according to energy experts at the Euro Med E&P Oil and Gas Exploration Production Summit held in Larnaca earlier this week.

With the repercussions of the 2008 financial crisis still being felt across the globe, delegates heard how few big banks today have the "balance sheet, expertise and patience" to finance major projects. At the buyer end, the challenges are similar. Large utility companies may no longer have the balance sheets to take the risk on very long-term projects.

The financial crisis has put pressure on banks, not just in Cyprus, to improve their balance sheets and increase their capital. That translates into banks that are less willing to lend large sums for long periods.

The energy industry has therefore had to adapt to the new chal-

lenges by finding new sources of financing, or finding a buyer before construction begins.

One such example is the VTTV oil terminal, which is currently under construction near Vassilikos. The oil terminal, which is due for completion in the first quarter of 2014, is expected to become a major hub for oil transshipment in the region.

Yet none of the financing came from debt. Instead, this EUR 300 mln project is being financed entirely by equity.

Another example is Sea NG, the company developing the technology to ship compressed natural gas (CNG). So far, CNG has only been transported on land. But now the technology to transport it by ship has been developed and has passed international safety tests.

CNG costs less to produce and process than liquefied natural gas (LNG), since it is not compressed as much as LNG and does not require a costly liquefaction plant at the other end.

Since CNG is ideal for transport over short distances, it is one of the options that is being explored by the Cyprus Natural Gas Company (DEFA) for the temporary import of natural gas from Israel to Cyprus. It has also been mooted as an export option if LNG

proves unviable.

Yet while there was widespread agreement at the conference that it would be better for marketing purposes to build one or two CNG ships and then sell their services, delegates heard that the financiers will only put up the finance to build a ship if there is a secure buyer for this new technology. Three ships would take around 28 months to build, according to Sea NG.

Another issue that affects financing decisions is price risk. Delegates heard how companies have had to write off billions of dollars of investment in US shale gas because the price has fallen, as finds, and therefore supply, have risen.

With little bank financing available, how will Cyprus build a EUR 7 bln to 10 bln LNG plant in a EUR 18 bln economy?

The answer may be private equity (PE) funds. Together with sovereign wealth funds (SWF), PE funds are being increasingly used for large, long-term projects.

Delegates heard that discussions have begun with two PE funds, which could be interested in financing Cyprus' large gas-related investments when the time comes.

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HB's new book: "We told you so..."

EDITORIAL

There must be hundreds or more fables and Aesop's tales that best describe how some serious bankers have been quietly going about their normal business, by maintaining high standards of morals and even an ethical approach to the otherwise greedy business of making money.

Without wanting to sound too pretentious about Hellenic Bank's "Economic Review 2004-2011", an almanac of the bank's quarterly reports, the introduction and conclusions of each report for that period seem to be saying "I told you so" on every single page.

Starting from the economically healthier years of 2004-2006, a period when the Cyprus pound was hinged to the ERM in a pre-euro entry phase, the bank's team of analysts had been calling for restraint and better control of the fiscal deficit in order to encourage further growth. The reports of mid-2007 raised the issue of the property bubble, warning that the mortgage crisis in the U.S. would have an impact on the rest of the world and we would need to learn from those mistakes of over-zealous lending (a year later we saw the collapse of Lehman Bros).

The reports in 2009 started to suggest that rising unemployment would bite us on the back side, while the writings from 2009 and 2010 often referred to warnings

from the European Commission and IMF (remember them?) about keeping our finances in order. Then followed the "too late to rescue" reports of 2011 with the government still over-optimistic about prospects and the intention to hike taxes in order to pay down its huge debt.

The bank's CEO, Makis Keravnos summed it up very wisely: "In order to know where we're headed, we should know where we're coming from".

Simple words that should be adopted by all three candidates in the run for the presidential race next year, because it is obvious that the current administration couldn't care less about trying to resolve the economic crisis. Not until after February 2013, that is.

MANAGEMENT TIP OF THE WEEK:

Out of time?
Give some away

Spending time helping others leaves people feeling as if they have more time, not less, says Harvard Business Review at www.hbr.org.

"It's counterintuitive but true: Spending time helping others leaves you feeling as if you have more time, not less," writes Cassie Mogilner, author of "You'll Feel Less Rushed If You Give Time Away".

Research shows that giving to others can make you feel more 'time affluent' and less time-constrained than if you choose to waste your extra time or spend it on yourself.

Next time you need a break from a busy day, don't do something mindless like surf the web. Sure, you might enjoy it, but it won't make you feel any less pressured.

Instead, pick an activity that helps someone else: Bring your co-worker a cup of coffee or edit your daughter's school essay. What's even better is that duration doesn't matter. Whether you give away 10 minutes or an hour, you still end up feeling less constrained.

Getting the best deal for Cyprus
in the second licensing round

By ADAM LOMAS



The recent find of gas deposits in the Levant basin represents a huge opportunity for Cyprus and the government has recently announced the setting up of a National Oil Company. Recent comments in this newspaper and others show the depth of passion surrounding who will control this crucial resource.

This debate will no doubt rage long and we hope that sense will prevail and that all Cypriots will get behind a national organisation which is properly resourced to develop, market and use this recently discovered treasure.

By way of comparison we could turn our attention to Qatar. The discovery of the North Dome Gas Field in the early '70s has enabled unimaginable economic development and prosperity.

But this didn't happen easily! Qatar did its homework, hiring in the skills it needed to leverage the most out of its newfound resource.

The similarly sized island of Cyprus can also enjoy such economic growth with effective and professional leadership combined with the prerequisite technical and managerial skills – provided they are made available. But there is a shortage of skills today in the energy market place.

This shortage will be at its most critical when it comes to negotiating the contracts for the second licensing round with the oil majors and their formidable negotiations teams.

There is a risk that the government will come out with a suboptimal deal if it is not supported by a strong team.

And over the longer term the skills shortage is likely to become greater.

But the government does not have to look far to find the talent that it needs. For the last ten years, as the "baby boomers" who built the North Sea oilfields retired to the Cyprus golf courses (amongst many others!), the supply of highly skilled workers required to build and maintain LNG plants has been a premium commodity which Cyprus can tap into.

The desire of national oil companies to see the skills transferred to their local populations has grown exponentially and I believe this is a proper and correct development.

The key to the successful development of a Cyprus-based oil and gas hub is a complete re-think of the way in which this skills transfer takes place. There are enough expatriates with the know-how to transfer the technical skills required.

Experience has shown that these skills can be leveraged by clearly agreeing up front that skill transfer is a prerequisite of short term employment.

As can be seen in Qatar, the rewards of successful transfer will be obvious, creating a true win-win situation for all.

For Cyprus, it means that it will be able to build a Cypriot talent base, the economy will not be held to ransom by a shortage of international labour and Cyprus-based expatriates can enjoy the benefits of the Cypriot economy and lifestyle whilst experiencing the pleasure of transferring skills to a new generation.

It sounds easy but from my many years of talent management I know that it isn't. A mindset change is required amongst all parties. Even the change in itself requires a skill set which is also only available in a few places, but it can be found.

The results are clear – the downside of not taking advantage early on will be also clear. We must hire the top talent to get the best deal for this natural resource and then transfer that knowledge to Cypriots, so that coaching and mentoring of young Cypriot Leadership talent becomes an important driver of the new economy.

** Adam Lomas is a retired executive from Royal Dutch Shell, who has worked and lived in the Middle East for more than 20 years. He was Head of Leadership Development for 10 years for Shell International, before relocating to Cyprus in 2009, where he currently lives. He has consulted for National Oil Companies in the Gulf region and lived for 6 years in Qatar where he taught Leadership and watched the nation grow from dependency on expatriate talent to its current enviable position as the world's premier gas exporter. He is a partner in Castor & Partners, a talent management and executive search firm dedicated to delivering talent to Cyprus.*

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