

Cyprus gas developments

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Introduction

Europe is still accelerating energy transition away from fossil-fuels, even though renewables and green-hydrogen are not increasing to the levels required to meet energy demand - a recipe for another crisis.

After a difficult 2022, the European gas market appears to have entered into a new phase: a '*new energy normal*'. Gas prices are down from their peak, but Europe faces a long-term loss of competitiveness. Surely this cannot be acceptable as the new energy normal.

The EU will have to secure gas at substantially lower prices than now, if the burden to EU households is to be reduced to affordable levels and industry's competitiveness is to be restored – avoiding de-industrialization that is already happening. It will also have to be dependable and reliable and not vulnerable to fast-evolving global geopolitics. Maximising production of European gas sources, such as East Med gas, ticks all these boxes.

East Med

The geopolitics of the region are fast shifting.

The ramifications of the re-election of Netanyahu in Israel, heading a government that is now shifting far to the right, are still unclear.

In Cyprus the election of Nikos Christodoulides as the new President will hopefully usher-in a new era.

The regional political puzzle could become clearer after this month's elections in Greece and Turkey.

With uncertainties in global energy policy continuing, as Europe and the US continue to push for a faster energy transition, and elections in Cyprus, Greece and Turkey, oil companies operating in Cyprus EEZ are unlikely to announce any major new initiatives in 2023, other than carry on with normal exploration activities.

Chevron's appraisal drilling at Aphrodite has just started, but it may produce more questions than answers. The reservoir is

compartmentalized and the well will be drilled in the middle and largest section.

The announcement drew the predictable response from Turkey, in effect confirming how challenging regional geopolitics is.

Even though in Cyprus Energy Ministers have made frequent references to gas exports from Aphrodite, the latest starting in 2027, there are no clear plans by Chevron and its partners to support this. In fact, Chevron CEO Mike Wirth made no reference to any plans about Aphrodite during his firm's 27 January earnings call and during Chevron's investors' day on 28 February, other than confirm appraisal drilling at Aphrodite.

With BP and Adnoc buying 50% of NewMed, thus entering Tamar, Leviathan and Aphrodite, it opens new possibilities, strengthening Chevron's development plans.

The announcement of 2-3 trillion cubic feet (tcf) gas discovery at Zeus-1 in block 6 by Eni/TotalEnergies in December is good news. Small, but it adds to the two other small discoveries in the same block, Cronos-1 with 2,5tcf and Calypso likely with 1-1.5tcf. Eni has announced it will carry out appraisal drilling at Calypso, probably end of the year.

These gas finds strengthen the case for the potential linking of these gasfields to the subsea production facilities at Eni's under-performing Zohr gasfield in Egypt, to be transported to the Damietta LNG plant for liquefaction and export.

Cyprus' Energy Minister said end 2002 that the Eni/TotalEnergies consortium wishes to implement faster steps in the exploitation of block 6. But this is still to be confirmed.

Evidently the companies operating in Cyprus' EEZ are not rushing with any new commitments or investments at this stage.

One project that may progress in 2023 is Energean's proposal to bring about 3.5 bcm/yr gas from its Israeli gasfields to Vasilikos in Cyprus by pipeline and liquefy it using a leased FLNG for export to Europe and beyond. But this depends on Energean making more discoveries from its ongoing drilling programme. It needs more gas.

The prospects for exploitation of the discovered gasfields in Cyprus EEZ in 2023 are low.

Apart from the need for oil company commitment, this requires a change of policy by the EU regarding the future use of natural gas in Europe, where the future of gas longer-term remains uncertain.

Current EU gas policies discourage European utilities from entering into long-term gas purchase contracts, that are needed to encourage development of new gasfields that require 20+ years of exports.

But I believe that intermittency and unreliability of renewables will force the EU to change its gas policies later in the decade. This could then open-up opportunities for development of East Med gas for export to Europe.

This is the right point to mention the perennial East Med Gas Pipeline. Is it still alive? Not likely. It never was. In any case, with Chevron now considering an FLNG at Leviathan there is no sufficient gas to support it. Also Europe is reducing gas consumption now and more in the longer term (see REPowerEU), not looking for new long term supplies.

An onshore liquefaction facility in Cyprus is still a possibility, but it is a longer-term consideration – by the end of the decade. And it really depends on more gas discoveries. With exploration continuing these are quite likely.

But Cyprus must also prepare the ground to make this possible. An obstacle to developing Cyprus gasfields is the geopolitical risk associated with the unresolved Cyprus problem and Turkey's continuous threats. With elections in Cyprus, Greece and Turkey ushering-in new governments by the summer of 2023, the second half of 2023 will be the right time to redouble efforts to overcome these obstacles.

Turkey's priority will be to tackle its catastrophic economy problems, something that will require the goodwill, cooperation and support of Europe and the US.

Readiness by Cyprus to enter into meaningful discussions to resolve the Cyprus problem will be supported by Europe and the US. Turkey may also consider this as key to gaining the cooperation of Europe and the US and become more amenable to working with them towards a solution.

A cooperative approach by all is the one most likely to produce the best possible results.

Preparing the ground also includes concluding the discussions with Israel regarding the Aphrodite-Ishai gas unitization dispute. But with changes in government, both in Israel and in Cyprus, this may have to wait until the second half on 2023 at the earliest.

With prospects for developing Cyprus' EEZ being low in 2023, the new President must prioritize development of renewables from the currently low levels. Upgrading the grid, electricity storage and the construction of the EuroAsia Interconnector, expected to begin by the summer, would be of great help. I will talk about that later.

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