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PRESENTATION TRANSCRIPT

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ENERGY SECURITY AND THE GEOPOLITICS OF ENERGY IN THE EAST MEDITERRANEAN

Throughout this discussion I will begin by analyzing some facts about what is happening in our region, and will go on to the suggestions which I have, as I believe that these could be used as a catalyst for solving various political instabilities in our region.

My main presentation will begin with an analysis of some facts and figures regarding the EU energy sector, because my suggestion is to do with the energy security of the European Union. I will discuss Europe's dependency on energy supplies, and what is happening, especially with the dependency of Europe on Russia. I will then finish with my suggestions in view of the prosperity that I believe does exist throughout the region, the establishment of the south/north energy corridor and pipeline which could be assisting not only the whole of the region, but Turkey would also be a beneficiary when they are in Europe.

I would like to say a few words regarding the off-shore hydrocarbon activities and, of course, to indicate that in our region it is unexplored, and the impact that South/East Mediterranean may have on the EU energy supply.

Now, coming to some figures, it can be seen that when looking at the inland energy consumption, and primary production of fuels, the figures I have are up until the year 2007. When looking at the consumption by type of fuel it shows how they modify from coal towards natural gas nowadays, so the dependence on natural gas has subsequently increased. It is also necessary to observe that 80% of all the energy consumed is provided by oil, natural gas and coal, whereas in 1990, hard coal and lignite accounted for nearly half of all the primary energy produced.

Looking at the share of primary production in the gross inland consumption, crude oil, natural gas and hard coal exhibit a significantly decreasing share of primary production, and many major fossil fuel resource sites within the EU are also in decline. Due to the increase in consumption and the decrease in primary production there has been increasing dependence

on fossil fuel imports. The energy dependency figures demonstrate that the EU imports approximately 55% of its energy needs; however, this figure is expected to rise to 70% by the year 2030.

The geographical origin of imports differs by type of fuel. Russia is a significant source of imports for natural gas, coal and oil, whereas the Middle East, North Africa and Norway are significant suppliers of oil. North Africa and Norway are also major suppliers of natural gas, and Australia, Colombia and South Africa provide most of our hard coal resources.

In summary, the EU relies mostly on energy imports from Russia, the Middle East, North Africa and Norway. It is, however, concerned about the long-term availability of these supplies. An issue which is presented by this reliance is the fact that some of these regions suffer from political instability, and risks of terrorism and their energy resources may be used as a political weapon. Instead they should use their energy resources as a catalyst to solve political problems.

We have witnessed the Ukrainian crisis of January 2006, March 2008 and January 2009, where there have been threats that the access to oil supplies may be cut. There have, therefore, been clear warnings to the EU of energy resource threats. Europe is very vulnerable to oil shock prices that may be created by the main energy suppliers. That is why they have to seek alternatives.

The main energy policy of Europe is the sustainability, competitiveness and, most importantly, the security of supply. It is clear that the EU is dependant on Russia, and they are subsequently very concerned. We have approximately 50% of Europe's energy supplies imported, and the main supplier in Russia is Gazprom. They have lots of new policies that they want to put to their users because they want to be the single producer, and the single supplier. Russia is the EU's most important trading partner as they are currently the world's largest producer of hydrocarbons. Several of the EU states are entirely dependant on Russia for their gas supplies.

So it is increasingly essential to see what they do, and their policies regarding Europe. What I am suggesting is that there could be an alternative utilization, the supplies from the Mediterranean Sea, and I am sure that it is very prosperous regarding hydrocarbons. I have been saying this for some years now.

We know that there are various projects in the pipeline. We also know that there are a lot of political inferences not to materialize these projects. An example of this is the Nabucco project.[1]

As there are potential threats to Europe's supply of energy it is necessary to explore ways to diversify its sources. The South-East Mediterranean region presents the most obvious candidate to serve as a new and relatively untapped source of natural gas and oil for Europe. This potential supply would be complementary to Caspian resources, thereby enhancing energy security for Europe and contributing to energy independence from Russia.

We are aware of other pipelines throughout Turkey, Greece and Italy, and the South, but they are not considering that the Mediterranean Sea is also an alternative. I am sure that what they discover here, the Egyptians, the Israelis, and possibly tomorrow the Cypriots and Lebanese,

[1] Initiated by Nabucco Gas Pipeline International GmbH.

they could make a pipeline and join all these forces through either Nabucco or another existing pipeline through Turkey, and then Turkey would also benefit.

From Nabucco, Turkey IS already going to get about $530 million per year as rent as well as, (without taxation) 20% off the price of gas, so they clearly have many benefits.

So all these issues, I believe, could be utilized by the politicians, and I believe this could be used as a catalyst for the dissolution of these political problems, and would be beneficial.

We already have the Arab Gas Pipeline, which has been in operation since 2003. There is also the infrastructure of liquefied natural gas (LNG)[2], especially in Egypt. The Iraq-Israeli oil pipeline is already under construction, and is going to be in operation. So what happens now is that the Palestinians make three wells there with British Gas, and all three are successful, they were discovered 3-4 years ago. Recently - although I will expand on this later - the Israelis discovered a very big structure in the region.

The Egyptians have already made 146 wells in the Mediterranean Sea. There are 81% of gas reserves in the Mediterranean Sea; however, in the Nile there are only 2%. So it is true that we are talking about a virgin area, the Mediterranean Sea, and there are many prospects in the region. We did a big survey, and found that there are some very serious companies now interested. Moving on to another area, we have a discovery in the South East Mediterranean, and I had a meeting where I was with the CEO of Noble who made the discovery. They initially thought they would find 2.5TCF[3], and they showed me in their strong room that they are indicating an estimated 8TCF. This is the second biggest discovery of last year. By 2012, they believe that they will have gas from their own reserves, and are using a very fast track to utilize the gas they have.

Cyprus itself is now making efforts of discovery, and we are hoping to move to a second bidding round next year. It is the third biggest island in the Mediterranean Sea, and provides a crossroad for many big international energy routes. It is a strategic hub for business activities in the region, and provides a bridge between Europe and the Middle East. Cyprus has already signed the relevant legislation and agreements: with the Arab Republic of Egypt ratifying the law in 2003 for the delimitation of the Exclusive Economic Zone (EEZ), the Framework Agreement concerning the development of cross-median line Hydrocarbon resources, and the Confidentiality Agreement in 2006.

Cyprus also signed an agreement with the Republic of Lebanon for the delimitation of the EEZ in 2007, and even with Israel we are trying our best, and we do believe that it is going to benefit both countries for this agreement to materialize. Of course, with Syria, their minister visited us, and we do believe that we can collaborate and finalize this agreement.

Various legislative regulations have come in based on the European Unions relevant Directive 94/22/EC[4], and they must be in harmony with this. We have very transparent and very open procedures of how we evaluate the bidders depending on their work activity, their reputation, their previous experience, and especially their financial capability, but above all is the share of the benefits of the exploration, which is based on production share in contract. Cyprus is

[2] Hereafter referred to as LNG
[3] Trillion standard cubic feet
[4] Outlines conditions for granting and using authorizations for the prospection, exploration and production of hydrocarbons – 30th May 2004

giving to all other states zero taxation so they have to include everything in their share, so we give them this very stable business environment so they know this country. Another new idea that I suggested which has also been adopted is that the share is not stable, but it is modified according to international prices at the time so there would be different tiers associated with the taxation prices.

The various licenses are exploitation licenses like those that have already been given to the American company, and are very much dependant on the Development Production Plan and the Environmental Impact Assessment study, and of course, as I said the main evaluation criteria are the technical and financial abilities of the applicant, and the ways in which the activities are carried out. These are alongside the offered financial considerations, and the efficiency and responsibility with the previous license. Finally, national security and public interest will also be taken into account.

Some of the surveys that have been carried out, utilizing some of the more recent and developed technologies have provided more clarity. We are the first country in the world to use this technology for a very big survey. We have hydrocarbon prospecting licenses which are granted for up to 1 year. We have indicated to BP and to Shell to use Cyprus as a supplier. When looking at the geological structures it can be determined that there must be hydrocarbon potentials. This is identified by geological surveys, but no drilling.

There are also hydrocarbon exploration licenses which have some technical requirements regarding how long we are giving them the license. They have to show that they are doing activities within the first 3 years, otherwise we might not extend this license. We can give two extensions to each one, but if they do not do anything we may not renew. On each renewal at least 25% of the initial licensed area is relinquished. In case of a discovery the licensee has the right to be granted an exploitation license for that discovery.

Hydrocarbon exploitation licenses can be granted for an initial period of up to 25 years, and can be renewed once for up to 10 years. During decommissioning, some production facilities (e.g. pipelines) may remain in place and can create an "artificial reef effect" which is considered to be a beneficial impact.

The offshore seismic survey is the first survey that we carried out in 2006. During this time we had about six lots of 770km of 2-D seismic survey. We have interpreted this information to create a data log entitled "New Exploration Opportunities Offshore Cyprus: A Geological Interpretation Based on a New Regional 2D Seismic Survey" which was prepared by Beicip-Franlab. These are in four volumes, include 179 figures and 37 maps. They must be purchased by companies interested in participating in the 1st Licensing Round Offshore Cyprus. We have already sold them to 14 companies, so there has been a lot of interest.

We have found that when looking at images of anticline structures with flat spots that on comparison with those of Shell in the NEMED block that we have very similar structures.

When looking at the Strategic Environmental Assessment (SEA) study, Cyprus is the second country after England to carry out this study in the North Sea in order to identify, describe and evaluate the likely significant effects on the environment of implementing hydrocarbon exploration and exploitation activities. Applicants for licenses are bound to follow, and comply with the results and recommendations of the SEA.

In 2007 another offshore seismic survey was carried out, but in 3D over 659km². It identified several hydrocarbon indicators such as flat spots, bright spots and amplitude anomalies. It also gave a better understanding of intra-Messinian and pre-Messinian structures.

By the end of this month we will have a new interpretation report entitled "New Exploration Opportunities Offshore Cyprus: Exploration Plays and Leads" prepared by Beicip-Franlab. We believe that in the second bidding round we will have a lot of data.

Noble's spokesman said on 23 January 2009 that the discovery of gas at Tamar has implications for gas potential off Cyprus where the US player has been awarded operationship of Block 12. The spokesman is reported to have said, "We believe the play concept extends into Cypriot waters"

CONCLUSIONS

The EU is worried about its dependency on Russian energy supplies, and is looking for alternative sources. It has been found that the South-East Mediterranean region can make a substantial contribution to Europe's energy security. The South-Eastern Mediterranean supplier is complimentary to Caspian resources, thereby enhancing the security of supply to Europe and contributing to energy independence from Russia.

In addition to ensuring security for the EU, the South Mediterranean energy cooperation will radically contribute to the development of the region, and to increase the geopolitical stability. The south-north energy corridor could turn the East Mediterranean region into an area of sustainable and balanced economic development based on comprehensive cooperation and solidarity. It will also strengthen cooperation, and create the appropriate framework conditions for prosperity, dialogue, stability and peace. The new developments will enhance the regional political stability, economic development and reduce poverty and social divisions.

Finally, it can also improve bi-lateral relationships, developing synergies, and enhance the continuous regional cooperation (e.g. Israel-Palestine, Cyprus-Turkey)

That is how I see it and I believe that we will live to see this materialize. In addition, I believe that energy could be used not only as a tool for fighting wars, but also something that can help towards stability.

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