TRANSACTIONAL: Corporate / London: The East Mediterranean: Evolving legislation for a new energy hub by Nina Howell

by King & Spalding (/profile/king_spalding_docs/) on 8/3/2012

Introduction

Historically the Levant Basin, a deep marine basin in the east Mediterranean between Cyprus, Israel, Lebanon and the Palestinian Territories, has not been considered a promising region for hydrocarbons. However, as a result of huge gas discoveries offshore Israel and Cyprus, the region is now perceived as a promising new frontier for natural gas.

Israel

Background

Significant gas fields have been discovered in Israel's territorial waters in the last ten years. The largest are the Leviathan field containing 453 billion cubic meteres (BCM) of natural gas and the Tamar field with an estimated 247BCM. The Tamar field alone has a quantity of gas equivalent to Israel's total energy consumption for 10 years. These discoveries led to the Government of Israel undertaking a review of its hydrocarbons laws and subsequently making changes to enhance the legal regime in Israel relating to exploration and production, marketing and distribution of oil and gas and taxation of hydrocarbons.

New Legislation and Guidance

The offshore oil and gas regime in Israel is governed by the Petroleum Act 1952 (the Petroleum

Law). The Petroleum Law sets out the rules for the granting of petroleum rights in the form of preliminary permits, licences, and leases, and for the transfer of petroleum rights. Under the Petroleum Law, petroleum rights are granted by the Petroleum Commissioner following consultation with the Petroleum Council. The Petroleum Commissioner also approves any transfer of petroleum rights in consultation with the Petroleum Council.

Over the last five years there has been a significant increase in the number of transfers of interest in petroleum rights in Israel as more players become interested in the region. The majority of these transfers are by way of farm-ins. The Government of Israel has responded by publishing Regulations and Guidelines in 2010 and 2011 further to the Petroleum Act with the aim of ensuring that transferees have the requisite financial and technical capability while maintaining a regulatory framework that encourages competition. The new Guidelines introduced significant new requirements for the transfer of rights and specify a long list of considerations that the Petroleum Commissioner and the Petroleum Council must take into account when considering whether to approve a transfer of petroleum rights.

Increased Government Take

The Government of Israel has also sought to enhance its own economic return from E&P activities within its territorial waters. In March 2011, the Israeli Government approved the Petroleum Taxation Law. The Petroleum Taxation Law preserves the present 12.5 percent royalty imposed on oil revenues, but imposes a levy on profits from oil and gas that rises to 50 percent from an initial 20 percent. The Petroleum Taxation Law provides transitional provisions to enable the gradual application of the new fiscal system.

Cyprus

Cyprus

Background and the Production Sharing Contract

In December 2011, Noble Energy announced the discovery of large gas reserves in Block 12, offshore Cyprus. The reservoirs within Block 12 are estimated to have up to 5.1 trillion cubic feet (TCF) of gas. The field, located in the Cyprus Exclusive Economic Zone (EEZ), borders Israel's Rachel block which includes the Leviathan field.

Noble Energy is developing the Block 12 reservoirs under the only Production Sharing Contract awarded by the Government of Cyprus to date following the Government's first licensing round in 2007. In February 2012, the Government of Cyprus announced its second licensing round. It attracted 15 companies and consortia from 15 countries bidding on nine of the twelve remaining blocks. The Council of Ministers will issue new licences to successful bidders in 2013. The conditions for exploration and exploitation activities by licencees will be set out in production sharing contracts between the Government of Cyprus and the successful Contractor parties. In anticipation of the award of new concessions, the Government of Cyprus revised its existing production sharing contract and published a new model form production sharing contract in February 2012.

EU Law

As an EU member state, Cyprus is subject to EU laws applying to the hydrocarbons sector. These include the Directive on the Conditions for Granting and Using Authorizations for the Exploration and Production of Hydrocarbons (Directive 94/22/EC), and the Directive Concerning Common Rules for the Internal Market in Natural Gas ((2009/73/EC) (the latter introduced under the Third Energy Package). Cyprus has secured a derogation from the Third Party Access requirements under the Third Energy Package on the basis that Cyprus is an isolated gas market with no existing gas. This derogation is expressed to expire when Cyprus ceases to be described as an emerging market by the EU. The significant discovery of natural gas offshore Cyprus is expected to encourage the development of a domestic gas market in Cyprus, as well presenting opportunities for gas export. It remains to be seen whether the EU will remove the derogation if Cyprus either develops a domestic gas market and/or becomes as exporter of natural gas.

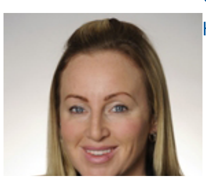
Domestic Law

The principal domestic hydrocarbons laws in Cyprus are (i) the Hydrocarbons (Prospecting, Exploration and Exploitation) Law of 2007 (Law no.4(I)/2007); and (ii) the Hydrocarbons (Prospecting, Exploration and Exploitation) Regulations of 2007 and 2009 (No.51/2007 and No.113/2009), which transpose the EU's Directive on the Conditions for Granting and Using Authorizations for the Exploration and Production of Hydrocarbons into domestic law (together the **Hydrocarbons Laws and Regulations**).

The Hydrocarbons Laws and Regulations set out the criteria for the assessment of licence applications in Cyprus. The Council of Ministers, assisted by an advisory committee, makes decisions regarding the award of licences, and any transfer of licence interests. To date the Council of Ministers has not approved any transfer of licence interests and there are no published criteria for licence transfers.

Summary

In Cyprus particularly, new laws (or at least new regulations and guidance) may be required as a result of increased activity in its hydrocarbons sector. Overall oil and gas companies can expect continued evolution of the legislative framework in the Levant Basin countries as the host Governments respond to the increased E&P activity within their territorial waters, and the prospect of new projects associated with recent discoveries in the area.



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