

POLITICS TRUMP ECONOMICS IN THE COMPLEX GAME OF EASTERN MEDITERRANEAN HYDROCARBONS

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A 2010 publication of the U.S. Geological Survey caused major excitement in [Cyprus](#), an island that at the time was suffering from the economic collapse of its neighbor and major trading partner, [Greece](#). According to the publication, the seabed of the Eastern Mediterranean could contain up to 120 trillion cubic feet (tcf) of natural gas.³ Three years later, the Cypriot administration has high hopes that natural gas exports may get Cyprus—the third smallest European Union member state—back on its feet, after its own financial collapse in 2012. Unfortunately for the Cypriots, the reality on the ground is sobering, and it is currently unclear whether Cyprus will become a producer, or an exporter, of natural gas. Around Cyprus, other countries hope to benefit from the energy potential as well, including Israel, Lebanon and the Palestinian Authority. In the Israeli Exclusive Economic Zone (EEZ), in particular, substantial reserves of natural gas have been found, though the verdict is out whether these will in fact all be produced.

Exploration of Cyprus's offshore concessions is at an early stage. Energy majors such as ENI and Total are among the first to explore possible gas (and oil) reserves and they expect results not before 2015. To date, only two test wells have been drilled by Houston-based Noble Energy. Proven reserves have been downgraded since and are currently estimated to be between 3 and 5 tcf. At this level of reserves, investing in a natural gas liquefaction terminal, which the Cypriot administration has supported, is not economically viable. A better alternative would be to construct a pipeline to Turkey, which has a large and rapidly growing market for natural gas.