



Strata Insight Risk Highlights

27 July 2016

*Cyprus faces a number of risks that could affect the operations of oil and gas companies in the region in the coming months and years. We have briefly outlined the key risks below. If you would like a deeper, independent insight into these risks, or information about our full product range, including **Stakeholder Mapping**, **Situation Updates** and our bespoke **Risk Assessment Model**, please do not hesitate to contact us using the contact details at the end of this report.*

Strata Insight offers a unique combination of qualities, giving you unrivalled depth and analysis from an independent source. We have an unbeatable network of contacts among the political and energy policy players in government, opposition and the international community. We are on the ground and speak the languages yet we enjoy the objectivity of non-locals. We have a long record of analyzing and anticipating developments in Cyprus and the region for international clients. And we have regional associates so that we can fold Israel, Turkey, Greece, Lebanon or Egypt into our analysis.

1. Energy policy dynamics

- Interest in Cyprus's energy potential is growing. In early 2016 BG (Shell) took a 35% stake in offshore Block 12. In addition, ENI has extended its licences for Blocks 2, 3 and 9, and Total has extended for Block 11. The third licensing round for Blocks 6, 8 and 10 attracted eight bidders, including ExxonMobil, Total, Eni, Statoil and Delek.
- At the same time, however, development plans for Aphrodite are being complicated by the fact that Israel and Cyprus have been unable to reach a unitization agreement for the Aphrodite field, which reaches over into the Israeli Yishai licence area. Total's drilling was also delayed by the inability to use Larnaca port facilities.
- What is the timeline for issuing licences? What are the prospects of Cyprus and Israel reaching a unitization agreement? What are the plans for energy infrastructure? Who is really running energy policy and what is the thinking behind official statements?

2. Risk of tensions with Turkey over maritime borders

- Tensions between Cyprus and Turkey have a history of flaring up in the Republic of Cyprus EEZ. Twice in the past few years Turkey has sent seismic and military vessels just as international companies started exploratory drilling. In December 2015 a Turkish frigate ordered a Cypriot-

flagged research vessel conducting seismic surveys in the Cyprus EEZ to leave an area claimed by Turkey as its continental shelf.

- How will Turkey respond to the issuing of a licence or exploration in Block 6, which it claims falls within its continental shelf? How will Turkey respond when exploratory drilling resumes in 2017 or to a final investment decision (FID) for Aphrodite? How would Ankara react to suggested moves on the part of Cyprus, Greece and Egypt to delineate areas west of Cyprus?

3. Israel-Egypt-Cyprus-Turkey and gas exports

- The long-awaited rapprochement between Israel and Turkey is now official and has created the political conditions for exporting gas by pipeline from Israel's offshore Leviathan field to Turkey. Meanwhile, the Cyprus government remains focused on gas exports to Egypt.
- How likely is a deal on gas trade between Turkey and Israel and where does this leave Cyprus' plans to export to Egypt? Without a solution of the Cyprus problem, would Cyprus give its consent to a pipeline through its EEZ and if it does not, what will Israel's response be?

4. Prospects for resolving the Cyprus problem

- UN-facilitated talks to resolve the longstanding Cyprus problem have recently gained momentum. The US is also engaged in encouraging regional cooperation on gas. A settlement of the Cyprus problem could have a major impact on gas exploitation opportunities.
- How seriously engaged are the sides in seeking a solution of the Cyprus problem? What is the likely timeline of a settlement and how are settlement prospects affected by the July 2016 failed coup attempt in Turkey? What would a Cyprus settlement mean for regional energy cooperation and different export options?

5. Risks to macroeconomic stability

- The economy has returned to growth after a severe banking crisis in 2013 and Cyprus exited the three-year bailout programme in March 2016. However, it will do so without having met the conditions to receive the final bailout tranche and its credit rating will remain well below investment grade. Moreover, with 20% of exports going to the UK, the economy is likely to be affected by Brexit.
- What will be the impact on the economy of Brexit or another external shock such as Grexit? Would Cyprus be vulnerable to default if this occurred? Separately, what are the economic and policy risks and challenges relating to a settlement of the Cyprus problem?

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