



Strata Insight Risk Highlights

16 June 2017

*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 our 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

- The Republic of Cyprus government signed contracts for the third offshore licensing round in April with consortiums that include ENI, ExxonMobil, Qatar Petroleum and Total. Meanwhile, after a pause of more than three years, exploratory drilling (by Total) is due to resume in July 2017. However, there remains uncertainty about the availability of drilling facilities for other companies.
- What is the timeline for providing space, can it be met and what is the attitude of the public towards sites for gas facilities? Are there any conditions under which the Cyprus government would suspend offshore drilling?
- The government is pursuing several options for gas exports but companies have yet to sign any binding agreements. What is the government's long-term plan, who is really running energy policy and what is the thinking behind official statements?

2. Rising tensions with Turkey over maritime borders

- Turkey's language with respect to activities offshore Cyprus has hardened in recent weeks and it has increased its protest activities in the Cyprus Exclusive Economic Zone (EEZ), with naval and airforce exercises.

- How far will Turkey's governing AK Party, now in alliance with the ultra-nationalist MHP, go to protect what it says are its own and Turkish Cypriots' interests? In the event of a failure of the peace talks, what is the likelihood that Turkey would resort to the use of military force to prevent offshore drilling?

3. Prospects for resolving the Cyprus problem

- UN-facilitated talks to resolve the longstanding Cyprus problem appear to be approaching the end-game, with a second Geneva conference due at the end of June with all three Guarantor Powers (Greece, Turkey and the UK). A settlement of the Cyprus problem could have a major impact on gas exploitation opportunities.
- How seriously engaged are the parties on and off the island to seeking a settlement and what are the prospects of a positive referendum vote from both communities? What is the likely timeline of implementation if the talks succeed?
- On the other hand, what is the appetite of the international community to remain engaged if this current effort fails and what are the risks to the energy sector if it does not?

4. Israel-Turkey and gas exports

- Gas developments in the Eastern Mediterranean have gained momentum following the announcement of FID for the Leviathan field by partners Noble and Delek in February. Gas will initially be exported to power plants in Israel and to Jordan, and possibly the Palestinian Authority. Discussions for Israeli exports to Egypt's idle LNG facilities are ongoing.
- Israel plans to sign a bilateral agreement with Ankara to build a pipeline from Israel's Leviathan to Turkey's southern coast to transport gas. Israel's minister of infrastructure, energy and natural resources has also been strongly supportive of the proposed East Med pipeline.
- How likely is a deal on gas trade between Israel and Turkey and how will this affect Cyprus' energy plans? Without a solution to 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?

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. However, it did so without having met the conditions to receive the final bailout tranche. Bank profitability is being affected by the very high ratio of non-performing loans and the sovereign credit rating remains below investment grade.
- How vulnerable is the Cyprus economy to external shocks, such as action by Turkey against economic interests, a hard Brexit or Grexit? Would Cyprus be vulnerable to default if this occurred? Separately, what are the economic challenges and opportunities relating to a settlement of the Cyprus problem?

Contact: consultant@stratainsight.com, +357 99 338 224