Eastern Mediterranean Hydrocarbons: Regional Potential, Challenges Ahead, and the ‘Hydrocarbon-ization’ of the Cyprus Problem

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Abstract

Natural gas discoveries in the offshore Eastern Mediterranean have been the source of regional geopolitical reshuffling. The purpose of this paper is to provide an analysis of implications of those changes on the Cyprus problem. The paper is composed of two main parts. The first part provides an exploration of historical development of hydrocarbon exploration activities in the offshore Eastern Mediterranean. While doing so, a special emphasis has been given on the cases of Israel and South Cyprus. Furthermore, an analysis of the possible export options for the regional potential is provided. The second part of the paper dwells on the implications of all these developments on the negotiation process towards the resolution of the Cyprus problem. It is argued that during the last decade hydrocarbon exploration activities by the Greek Cypriot Administration have had a negative effect at the negotiation table.

Key Words

Eastern Mediterranean, Cyprus Problem, Natural gas, Pipelines, Hydrocarbons.

Introduction

The discoveries of hydrocarbon resources in the Eastern Mediterranean have raised the question of whether it will be a game changer in the region or not. According to the United States Geological Survey (USGS), the region could hold up to a total of 122 Tcf natural gas.\(^1\) According to BP’s 2015 data, global proven gas reserves are approximately 186.9 Tcm.\(^2\) When compared at the global scale, on the one hand it can be seen that the region has a limited global impact. On the other hand, for the regional countries such as North and South Cyprus and Lebanon, which are primarily dependent on imported hydrocarbons for their energy production, regional discoveries will have a game changing impact. The Israeli experience of the past decade in terms of how increased natural gas production decreased Israel’s dependence on imported hydrocarbons provides hints of what kind of a regional, geopolitical, economic and diplomatic game changing impact regional resources could have.

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There are several challenges standing in the way of the development of regional hydrocarbon potential. In addition to the need for further exploration and discoveries in the region, lack of a clear-cut understanding on the delimitation of the maritime boundaries, an established export mechanism to international markets, and uneasy regional relations can only be listed as some of the challenges that may keep the Eastern Mediterranean from reaching its full potential.

Due to its geopolitical position, hydrocarbon potential, and existing and potential conflicts, the island of Cyprus is located at the very heart of various monetization scenarios being proposed for the development of an Eastern Mediterranean export mechanism.

As of April 2017 the only proven reserves of the Eastern Mediterranean region were those of Syria and Israel. Syria has 2.5 billion barrels of oil and 8.5 Tcf of proven onshore natural gas reserves. On the other hand, since 2009, Israel has made successful discoveries in its offshore space. Its proven oil reserves are 11.5 million barrels and natural gas reserves are 10.1 trillion cubic feet. Reserve estimates to the recent hydrocarbon findings in the region. Nevertheless, only eight months after the restart of the talks, the slowly progressing negotiations came to an end as a result of heightening tensions stemming from an offshore hydrocarbon exploration duel between the two sides. The purpose of this paper is to focus on how the hydrocarbon exploration activities of the Greek Cypriot Administration have evolved as a political tool to gain leverage over the negotiations of the Cyprus problem. For this purpose the article will particularly focus on the sixth round of Cyprus negotiations, which resumed on 11 February 2014, and will try to show how at various stages of the negotiations the hydrocarbons issue has been used as a game breaker at the negotiation table.

Eastern Mediterranean Hydrocarbon Potential and Possible Export Options
Over the last decade three pipeline scenarios were proposed (see Figure 1): the Israel–Cyprus–Greece (also known as EastMed) Pipeline; the Israel–Turkey Pipeline; and the Israel to Neighboring Arab Countries (namely Egypt, Palestine and Jordan) Pipeline.7 Raised by the Greek Cypriot Administration and Greece in order to eliminate any possible Turkish involvement in the Eastern Mediterranean energy, the Israel–Cyprus–Greece Pipeline is the longest and most challenging in terms of finances and technological requirements. For the time being,

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Sources: EIA estimates, IHS, Oxford Institute for Energy Studies, Oil & Gas Journal, company reports, trade press.
although the project is listed among the projects of common interest to the European Union, it is argued to be the least possible pipeline option.  

The second one is the Israel-Turkey pipeline. This pipeline is shorter and argued to be most feasible export option for the regional potential. Continuation of the Cyprus Problem, given that a possible pipeline could either pass through the island or its offshore, presents a serious obstacle. Furthermore, for the last decade, damaged relations between Turkey and Israel, especially after the Mavi Marmara Crisis of May 2010, present another serious geopolitical barrier facing this project. Improving relations between Israel and Turkey since June 2016 have increased the chances for realization of this project as long as the market conditions are ripe and a peaceful deal could be reached with the Greek Cypriot administration.

The first two options were developed in such a way as to incorporate the Cypriot potential. Despite the fact that Cyprus and Israel had parallelisms in the Eastern Mediterranean hydrocarbon game, as time passed it seems that due to numerous reasons, Greek Cypriots are lagging behind Israel in terms of taking the lead in determining the export regime for the region. It is possible to list low appraisal results, severe economic crises, inability to attract investors for its grand Vasilikos LNG Terminal project, and lack of improvements regarding the resolution of the Cyprus problem as being only some of the reasons pushing the GCs to the sidelines in terms of pioneering the East Med export regime.

The third pipeline option is the one which does not directly require Cypriot involvement. It involves development of Israeli potential and an export regime independent of developments regarding the Cyprus Problem and exploration activities. It is planned that Israeli natural gas could be exported to Egypt through already existing pipeline infrastructure, namely the Arish-Askhelon pipeline, where new sections could be built to supply Jordanian and Palestinian demand. Nevertheless, bearing in mind the nature of Israel-Egypt relations as well as the new 30Tcf Zohr discovery of ENI on the Egyptian offshore, this option cannot be counted on as the sole export regime for Israel.

In addition to pipelines there are various scenarios being discussed regarding the use of LNG terminals for the export of regional potential. Especially due to increased demand in the Asian markets as a result of the Fukushima explosion, experts and policy makers quickly suggested that the best early export strategy for the region could be
the onshore LNG terminal in Vasilikos, Cyprus seems to be the most discussed and highly promoted option on behalf of the Greek Cypriot Administration and Greece, for the time being it seems to be a distant option. Reasons for this have much to do with the geopolitical conditions and low outcomes of the Aphrodite appraisals.

In terms of the LNG option, Israel has been testing the possibility of following an independent route that

Figure 1: Pipeline Scenarios for Eastern Mediterranean Hydrocarbons

does not necessarily require Cyprus involvement. In this regard, instead of an onshore LNG terminal, an offshore LNG terminal (FLNG - Floating LNG Terminal) was put out for discussion. Nevertheless, failure in early 2014 of the longstanding negotiations between Australian LNG giant Woodside and the Israeli government, decreased natural gas prices in the market, and inability of the Israeli leadership to establish a clear consensus on what to do with Leviathan field, postponed the FLNG option to a further date.\(^{18}\)

Especially due to increased demand in the Asian markets as a result of the Fukushima explosion, experts and policy makers quickly suggested that the best early export strategy for the region could be through LNG terminals.

The last option discussed is Compressed Natural Gas (CNG). This is an untested and expensive option.\(^{19}\) Although discussed during several international workshops, currently none of the parties are opting for a CNG choice for real. For the time being all of the above options are bound to the development plans of the Israeli Leviathan field and further possible discoveries in the region.

Cyprus Exploration Adventure

Israelidiscoverieshavebeenencouraging in terms of the GC administration’s decision to dwell more on hydrocarbon exploration activities in its claimed Exclusive Economic Zone. Until April 2007, the hydrocarbon exploration adventure of the GC administration evolved as a series of actions. While on the one hand a legal framework was developed, on the other hand technical seismological dossiers were prepared in order to set the stage for opening up of the hydrocarbon explorations tenders. Up until April 2017 three exploration licensing rounds have been implemented. Throughout the process an extensive publicity campaign has also been launched in order to attract international attention to the Cypriot offshore.\(^{20}\) This section aims to provide a brief historical sketch of the activities taken by the GC administration’s hydrocarbon exploration activities.

The initial step taken by GC leadership was the establishment of a necessary legal framework for hydrocarbon exploration activities both at the international and domestic levels. The
Eastern Mediterranean region was a Pandora’s Box in terms of maritime boundaries. Mainly because of its geographical as well as geopolitical conditions, there was no clear-cut Exclusive Economic Zone delimitation agreement between the regional countries.²¹

At the international level, the GC administration initially engaged in a series of Exclusive Economic Zone (EEZ) delimitation agreements with Egypt (2003), Lebanon (2007), and Israel (2010). This was coupled with the division of the so called GC EEZ into 13 exploration blocks. At the domestic level a legal framework was established with the passing of the Hydrocarbon (Prospection, Exploration and Exploitation) Law in 2007 (No. 4 (1)/ 2007) where the relevant regulations were completed in 2007 and 2009 (No.51/2007 and No. 113/2009).²²

While preparing the legal frameworks, a two dimensional (2D) seismic study was conducted between March-May 2006 and a three dimensional (3D) seismic study was conducted between January-March 2007, which paved the way for the opening of the First Exploration Licensing Round. The first round was opened for the periods of February- August 2007. Among the 13 identified exploration blocks, Blocks 3 and 13 were excluded from this round (see Figure 2). Only one exploration license was granted at the end of the period, to Noble Energy International, as of 24 October 2008 for exploration of Block 12.

A series of 2D (August 2008-March 2009) and 3D (October 2009) seismic studies were subsequently conducted after the completion of the license agreement with Noble Energy. The turning point in terms of the enhancement of hydrocarbon exploration activities in Cypriot offshore came after the signing of the EEZ agreement with Israel in December 2010. Almost a year after the signing of the EEZ agreement with Israel, Noble Energy conducted its first exploratory drilling in Block 12 (at a very close point to the Israeli EEZ where the discovery of the giant Leviathan Field was made) and in December 2011 Noble announced the discovery of the Aphrodite field with a mean potential of 3-6 Tcf.²³ However, after the second exploratory drilling, it was announced that the potential of the field could be up to 5 Tcf. The field’s potential has not been proven yet and there is more exploration that needs to be done to confirm the actual potential of the field.
agreements were granted for Blocks 2, 3, and 9 to ENI Cyprus Ltd. and KOGAS Cyprus Ltd Consortium. For Blocks 10 and 11, TOTAL E&P Cyprus B.V. acquired the exploration licenses.\textsuperscript{25}

In October 2014, exploratory drilling by the ENI-KOGAS consortium started in Block 9 of the Cypriot

Discovery of Aphrodite emboldened the exploration attempts of the GC leadership, which paved the way for the launch of the Second Exploration Licensing Round in February 2012 for all of the exploration blocks except Block 12, which was licensed to Noble previously. Fifteen companies showed interest in the Second Licensing Round\textsuperscript{24} and after negotiations, license

Figure 2: Off Shore Hydrocarbon Exploration Blocks Claimed by the Greek Cypriot Administration

offshore, ending without success.\textsuperscript{26} It was suggested that the ENI-KOGAS consortium was contracted to conduct four exploratory drillings, but after the unsuccessful second exploratory drilling that came soon after the first one, implementation of further drillings in Block 9 was halted. The ENI-KOGAS failure combined with the low market prices decreased the attractiveness of the region for the companies. TOTAL, which was supposed to be the next to conduct exploratory drilling in Cyprus offshore, decided not to. This led to a slowdown in the GC administration’s exploration activities.

The Third Exploration Licensing Round was announced on 24 March 2016 only for Blocks 6, 8 and 10. On 27 July 2016, the GC administration announced the applicants,\textsuperscript{27} and on 21 December 2016 the GC Council of Ministers announced the names of the selected applicants to be invited for the negotiation of the exploration licenses. According to that decision, for Block 6, ENI Cyprus Ltd. /Total E&P Cyprus B.V.; for Block 8 ENI Cyprus Ltd.; and for Block 10 Exxon Mobil Exploration and Production Cyprus (Offshore) Ltd. Qatar Petroleum International Upstream O.P.C., were selected. After the completion of the negotiations, the GC administration signed a license agreement with the companies on the 5 and 6 of April 2017.

‘Hydrocarbon-izing’ the Cyprus Problem

The last round of the Cyprus negotiation process started on 11 February 2014. Leaders of the two communities, Nicos Anastasiades and Derviş Eroğlu, came in front of the media declaring a long discussed joint communique announcing the parameters of negotiations and declaring the resuming of the talks.\textsuperscript{28} For this round of negotiations there was a kind of public consensus on the catalyzing role played by the presence of hydrocarbons in the Eastern Mediterranean. An analysis of the past decade of the GC leadership’s hydrocarbon exploration activities reveals that at various stages of the negotiations hydrocarbon exploration has been used as a tool for increasing tensions, gaining leverage on the negotiation table and acquiring support of the international community.

The Hydrocarbon-ization of the Cyprus Problem started as early as the Annan Plan negotiation process. Only three months after the submission of a comprehensive peace plan by UN Secretary General Kofi Annan in November 2003, the GC administration signed the EEZ delimitation agreement with Egypt, which led to reactions from the Turkish Cypriots\textsuperscript{29} and Turkey. This was one of
the first attempts to increase tensions at
the negotiation table by using natural
gas leverage and delaying a possible
referendum on the Annan Plan to a
date after the completion of the GC’s
full membership process to European
Union. On 1 May 2004 Cyprus became
a full member of the European Union,
whereupon the application of the acquis
communautaire was suspended for the
northern part of the island until the
resolution of the Cyprus Problem.

The Annan Plan was put to a
referendum on 24 April 2004. Despite
attempts for a solution, the result was
a 64% “yes” vote by the TC and a
75% “no” vote by the GC. Two years
after the failure of the Annan Plan,
UN Secretary General Kofi Annan
appointed Ibrahim Gambari, who was
Under-Secretary General for Political
Affairs, to broker an agreement between
the leaders of the two communities. The
“Gambari Process”, which can be called
the fifth round of negotiations, started
on 8 July 2006, when Turkish Cypriot
leader Mehmet Ali Talat and GC
Leader Tassos Papadopulos signed an
agreement to restart the negotiations.30

In the post 8 July period there has
been an extensive effort by the UN,
pushing parties for formal reopening
of negotiations. In January 2007 the
GC administration signed an EEZ
delimitation agreement with Lebanon,
conducted 3D seismic surveys, and
announced the opening up of the first
licensing round for the exploration
of offshore Cyprus. Not surprisingly
those actions by the GC administration
were opposed by the TC leadership and
Turkey, and a new process of reciprocal
actions regarding the hydrocarbon
exploration activities started. Over the
following decade TC and Turkey have
followed a reactionary approach to the
actions taken by the GC administration.
In official letters to the UN and in press
statements, TC and Turkish authorities
have tried to emphasize the risks that
can be caused by the unilateral EEZ
delimitation and hydrocarbon exploration actions of the
GC administration.

On 2 February 2007 (A/61/727-
S/2007/54) the Turkish Republic of
Northern Cyprus (TRNC) President
Mehmet Ali Talat wrote a letter to
the UN Security Council in reaction
to the signing of the EEZ agreement
with Lebanon, listing TC objections to
taking such unilateral actions. At the
same time, the Turkish Government
formally requested from the Lebanese
government to not to ratify the
agreement with GC leadership. Once
again these events led to increasing
tensions between the parties and
halting of the UN efforts to restart the
negotiations.
The February 2008 Presidential election on the southern part of the island was another dynamic, making it difficult for the parties to progress towards opening up of the negotiations. At the end of the elections Demetris Christofias was elected as the new leader of the GC administration. Following the election of Christofias, who was known to be a pro-solution leader, in March 2008 Talat and Christofias met for the first time officially as the leaders of the two communities. This opened the way for the establishment of Technical Committees and Working Groups towards the formal reopening of negotiations on the island. These developments were considered as the beginning of an increased momentum towards progress where both leaders met once again on 1 July 2008 confirming their commitment towards a bi-zonal, bi-communal federal solution based on political equality and citizenship. The leaders’ official meetings and commitment were followed by the appointment of former Australian Foreign Minister Alexander Downer as the new Special Advisor on Cyprus to the Secretary General on 11 July 2008. Soon after Downer’s appointment, full-fledged negotiations between Talat and Christofias were launched in September 2008. Nevertheless only a couple of weeks after the launching of negotiations was announced, in October 2008, the GC administration’s decision regarding the granting of the exploration license to Texas-based Noble Energy for Block 12 changed the momentum. Once again at a critical juncture of the negotiations, natural gas exploration attempts served as a tension raiser between the two parties. The GC announcement of granting a license to Noble energy resulted in a second letter written by TC leader Talat to the UN Security Council on 26 November 2008 (A/63/574-S/2008/741) addressing the TC’s objections.

Contrary to the hopes of pro-peace groups on the island and despite the presence of 33 convergence papers, the process stagnated once again with the presidential elections of 2010 in the northern part of the island. As a result of the elections on 18 April 2010, a hardliner who defended a two state solution during the Annan referendum,
Derviş Eroğlu, replaced Mehmet Ali Talat as the new president of the TRNC. As soon as he was elected, Eroğlu wrote a letter to UN Secretary General Ban Ki Moon stating that he would continue the negotiations from where Talat and Christofias had left off.33

2010 witnessed an important milestone in GC hydrocarbon exploration activities. The Mavi Marmara Flotilla incident, which resulted in a diplomatic crisis between Turkey and Israel, gave the GC administration a long waited momentum to proceed with the EEZ delimitation agreement with Israel, which was concluded on 17 December 2010. On 29 December 2010 Noble announced the discovery of Leviathan in Israeli offshore at a very close location to Block 12 of the GC offshore.34 The discovery of the Leviathan Field was an important development motivating the GC leadership to push further on hydrocarbon exploration activities in the GC offshore.

On 19 September 2011 Noble Energy commenced exploratory drilling in Block 12. Whilst Noble's activities were closely followed with excitement on the southern part of the island, the unilateral actions of the GC administration were of great concern in the north. Only three days after the commencement of Noble drilling, Turkey and the TRNC signed a continental shelf delimitation agreement, which was followed by the signing of an exploration license granting agreement between the TRNC and Turkish Petroleum (TPAO Türkiye Petrolleri Anonim Ortaklığı). In the meantime, the Turkish seismographic Vessel Piri Reis started a seismic survey in the TC offshore and Turkish Naval vessels began patrolling the area. Those actions were a demonstration of TC and Turkish policies aiming to postpone developments regarding the hydrocarbon exploration until after a solution on the island, upon which Turkish Cypriots would also be able to exercise their say regarding the development of the island’s hydrocarbons.

After a tense September, on 30-31 October 2011, UN Secretary General Ban Ki Moon invited Eroğlu and Christofias to New York for a summit at Green Tree, where the two leaders discussed four core issues of the Cyprus Problem namely: governance and power sharing; property; territory; and citizenship. One month after the Green Tree meeting, on 28 December 2011, Noble Energy announced the discovery of the Aphrodite Field in Block 12. Motivated by the discovery of the Aphrodite field, the GC administration launched the Second Exploration Licensing Round on 11 February 2012 which was opposed by TC and Turkish authorities.
Despite the fact that Eroğlu and Christofias met 76 times between 2010-2012 it was not possible to proceed further. Negotiations came to a halt when Cyprus acquired the EU Presidency, followed by the Presidential elections in the southern part of the island replacing Christofias with Nicos Anastasiades in February 2012. After being elected, Anastasiades made it very clear that his priority would not be the Cyprus Problem but the economic crisis his country was suffering from. For the 20 months between July 2012 and 11 February 2014, all efforts to restart the negotiations between the parties failed.

On 29 September 2012 TC President Eroğlu made a four point proposal to the UN Secretary General demanding suspension of the exploration efforts until a solution was reached. The proposal also stated that if postponement was not a possibility then at least there should be the establishment of a bi-communal committee on hydrocarbon exploration activities and an agreement to not use any revenue acquired from hydrocarbons for militarization purposes, but instead for the reconstruction of peace on the island. The proposal received no acceptance by the GC administration, which stated that hydrocarbon exploration activities were within their sovereign rights and they were not willing to discuss the issue at the negotiation table.

In February 2012 Turkey announced that companies who took part in the second licensing round of the GC administration would not be allowed to operate in Turkey and in 2013 decided to stop ENI activities in Turkey, as one of the companies submitting applications for the second round. In addition to press statements, based on the previously signed oil and gas exploration agreement between TRNC and TPAO, onshore exploratory drilling was initiated in the northern part of Cyprus, and named the Turkyurdu 1 Well.

The long awaited joint communiqué came on 11 February 2014, opening the sixth round of Cyprus negotiations. In addition to efforts at the UN level and by the Turkish Ministry of Foreign Affairs, the joint communiqué presented by the two leaders also came out as a result of active US diplomatic involvement. US Assistant Secretary of State Victoria Nuland’s visit to Cyprus on 4 February 2014 as part of a wider diplomatic tour played a key role in establishing the international pressure for the opening of the last negotiation round. This was followed by the visit of US Vice President Joe Biden on 22 May declaring his support for the two leaders and reassuring that all parties would benefit from the solution of the Cyprus Problem.
On 21 August 2014 Espen Barth Eide was appointed as the new Special Advisor to the Secretary General on Cyprus.\textsuperscript{41} After his appointment, Eide had a very busy agenda, meeting with leaders, negotiators, representatives of the political parties on the island and diplomatic circles in the respective motherlands of the two communities.\textsuperscript{42} On 17 September, negotiations were resumed with the agreement to move to the next stage in negotiations.

Once again, only a week after resumption of the talks, at a moment which was considered to be a critical step towards a solution for the Cyprus Problem, the natural gas issue entered the scene as a game breaker on the negotiation table. On 25 September 2014, ENI commenced drilling operations at the Onasagoras well in Block 9.\textsuperscript{43} This attempt was followed by the dispatch of the Turkish seismic research vessel Barbaros Hayrettin Paşa and naval vessels to the Turkish Cypriot offshore on 3 October 2014. On 7 October 2014 GC leader Anastasiades announced that he had suspended his participation in negotiations unilaterally. This announcement came as a reaction to a Navigational Telex (NAVTEX) by Turkey dated 3 October, declaring the seismic survey route in the TRNC’s continental shelf. The incident came to be known as the NAVTEX Crisis, which is the most obvious demonstration of the hydrocarbon exploration activities becoming a tool for challenging the Cyprus negotiations.

Despite the fact that similar navigational telexes were declared for Turkish seismic vessels in previous exploration activities and had not received reactions from the GC administration to this extent, Anastasiades’ decision to suspend his participation in negotiations escalated the tension to such a degree that it risked the continuation of the negotiation process.\textsuperscript{44} Parties to the negotiation table soon declared their position towards those developments, while Nicos Anastasiades was making it very clear that he would not return to negotiations unless the Barbaros Hayreddin Paşa seismic survey ship left the region, the Turkish side was emphasizing that so long as the GC leadership continued exploration
activities unilaterally, the Turkish side would continue exploration too.

The October 2014 hydrocarbon exploration bottleneck was the first round of the “NAVTEX Crisis”. Trying to return the attention back to the negotiation table that had been overshadowed by the natural gas barrier, Special Adviser Eide came up with a new proposal for the establishment of an advisory panel responsible for the management of the technical aspects of natural gas exploration activities. It was argued that this panel would act as a twin track process parallel to the peace negotiations. Before even giving a formal answer to Eide, the proposal came to daylight through media coverage stating that the GC leadership would not accept to discuss the hydrocarbon exploration issue as part of the negotiation process.

Efforts to bypass the crisis were not successful. In December 2014, as the tension from both parties’ NAVTEX declarations was ending and everybody’s expectation was a normalization, a second round of the “NAVTEX crisis” broke out. In January 2015, the GC leadership announced that ENI-KOGAS would continue its exploration activities until 18 March 2015 in Block 9 with the drilling of another well named Amathusa. After this declaration the Turkish side waited for six days before declaring another NAVTEX for seismic surveying and continued diplomatic contacts at the level of the United Nations and the Turkish Ministry of Foreign Affairs. Diplomatic efforts by the TC side were fruitless in terms of cancelling the Greek Cypriot Administration’s decision for a second round of drilling, and the second NAVTEX for Barbaros Hayreddin Paşa came in January 6, which continued until 6 June. Despite the fact that there was a NAVTEX declaration, as a sign of good will, the Barbaros Hayreddin Paşa Ship never left the Famagusta port. Following TC and Turkish actions, the GC leadership and ENI-KOGAS consortium announced that there wouldn’t be another drilling because the SAIPEM 100000 drilling platform needed maintenance. For the diplomatic representatives on the island, the crisis had been peacefully managed without anyone losing face and this was a sign that negotiations would start again soon. Two unsuccessful drillings by ENI in Block 9 had a curbing effect on other companies who were planning to commence drilling. In January 2015 TOTAL announced that it was planning to pull out of its licenses in Blocks 10 and 11.

On 18 March 2015, Eide visited the island and held meetings with the leaders of both sides assuring that negotiations would resume right
after the presidential elections on the northern part of the island. GC President Anastasiades and newly elected TC President Mustafa Akıncı met on 15 May 2015 for the first time, marking the reopening of negotiations. The rest of 2015 and 2016 witnessed an extensive period of negotiations between the two leaders and their technical committees. On numerous occasions UN representatives stated that UN good offices could not go on forever and this was a very important stage for the Cyprus Problem where by the end of 2016 there were to be serious developments towards a solution.\(^49\)

While all these statements were being made, on the one hand the GC leadership was actively taking part in the negotiations, but on the other hand preparing for the opening of the third hydrocarbon exploration round, which was announced in March 2016.\(^50\) In the post NAVTEX Crisis environment, coupled with the unsuccessful ENI-KOGAS drillings and with TOTAL getting cold feet regarding its exploration plans, from May 2015 to March 2016, the GC administration kept a low profile in hydrocarbon exploration activities.

In addition to increasing pressure at the negotiation table, two developments in the Eastern Mediterranean region made the GC leadership utilize the natural gas card once again. The first development was the discovery of the Zohr field in the Egyptian offshore, which was geographically close to Block 11 on the GC offshore (see Figure 3). The geographical proximity of the giant Zohr field not only motivated the GC leadership regarding the regional potential but also increased the interest of international companies in the region. The second important turning point that motivated the GC leadership was the increasing diplomatic contacts and energy cooperation signals from the Turkish and Israeli authorities after the summer of 2016. This rapprochement was perceived as a threat to the hydrocarbon leverage policy that the GC had been trying to build since 2003.

The announcement of the third licensing round can be considered as a security valve on behalf of the GC leadership towards the negotiation table since it automatically introduced a legal timeline. The legal notice announcing the third licensing round stated that the companies were required to submit an expression of interest within 120 days after the publication of the announcement.\(^51\) This set July as the deadline for submission of the bids, and meant the GC administration had to announce the names of the companies chosen for negotiations by around October and the negotiations
Right after the announcement of the Third Licensing Round, the TC and Turkish authorities made statements that this was again against the rights of Turkey and the TC, and necessary actions would be taken if the process continued. 53

with selected companies had to start by the end of 2016 or early 2017. According to this timeline, the Greek Cypriot Administration would grant exploration licenses to the selected companies at the latest by March or April 2017. This approximate schedule regarding the progress of the Third Exploration Licensing round was setting the stage for how the Cyprus negotiations would proceed by as early as March 2016. The opening of the third licensing round raised concerns on the southern part of the island, where many claimed that the timing was the outcome of an ill-advised political decision bearing in mind the approaching negotiation agenda. 52

Figure 3: Egypt’s Zohr Field

It was obvious to leaders of both communities that the last three months of 2016 would be a period in which Cyprus negotiations would escalate. As expected, the UN Secretary General invited the two Cypriot leaders to New York on 25 September 2016 to discuss organizing a meeting outside of Cyprus and possibly an international conference where the guarantor powers (Turkey, Greece and the UK) would participate as well. After New York, it was agreed that the two leaders would meet again in Switzerland under the auspices of UN Secretary General’s Special Adviser on Cyprus Espen Barth Eide to discuss the unresolved issues of the Cyprus problem during the negotiations in Cyprus. The territory chapter, which is one of the most complicated issues of the Cyprus Problem, was at the top of the agenda. Between 7-11 November 2016, the two leaders went to Mont Pelerin, Switzerland. This meeting came to be known as the first Mont Pelerin meeting, and ended with a declaration that GC leader Anastasiades needed more time to think about the issues discussed. The two leaders left Switzerland with an agreement that they would come back a week later. The second Mont Pelerin meeting was held on 20-21 November 2016 and ended with Eide’s statement declaring that the leaders could not achieve convergences on territorial adjustment. In between the two Mont Pelerin meetings, the GC administration announced that the technical committee had completed its evaluations for the assessment of the bidders for the third round and that the results would be announced soon. This announcement, coming right in between the two Mont Pelerin meetings, signaled that the GC administration was poising the natural gas card once again towards the negotiation table. On 21 December 2016, the GC administration announced the names of the companies that they would start negotiating with.

The two leaders came back to the island empty handed on any decision to continue negotiations in Nicosia. After a series of meetings, Eide announced that the leaders agreed to go back to Switzerland on 9 January, and to present their respective maps on 11 January. January 12 would be the date of the long awaited international conference in which the leaders of the TC and GC, as well as the representatives of the Guarantor Powers, would meet. Yet again however, the meetings and international conference in Geneva did not bring about any improvement, and the parties returned empty handed with the agreement that negotiations would continue on the island. This was the beginning of a stall in terms of negotiations despite the agreement.
March 2017 was marked by extensive efforts from Eide to bring the parties back to the negotiation table, though these were overshadowed by the continuation of the GC administration’s hydrocarbon efforts in line with the timeline of the Third Licensing Round. On March 7, the GC administration announced that they had completed the negotiations with the bidding companies. After the GC parliament’s decision regarding postponing the commemoration of ENOSIS in GC public schools, the two leaders came together at an informal dinner on April 1, 2017 agreeing to resume the stalled negotiations on 11 April 2017. Only five days after the informal leader dinner, the GC administration signed contracts with selected companies on 5-6 April 2017, setting summer of 2017 as a possible date for the start of further explorations and drilling in Cypriot offshore. The leaders came together on 10 April, resuming the talks once again. More than the talks themselves, the press statement given by Akinci after the meeting, regarding the dangers of the unilateral natural gas exploration actions by the GC administration and Anastasiades’ statements denying natural gas discussed as part of the meeting, marked the beginning of a new process.

March 2017 was marked by extensive efforts from Eide to bring the parties back to the negotiation table, though these were overshadowed by the continuation of the GC administration’s hydrocarbon efforts in line with the timeline of the Third Licensing Round. On March 7, the GC administration announced that the deadlock came when Anastasiades left the negotiation table on 17 February 2017 after Akinci asked for cancellation of the GC parliamentary decision regarding the commemoration of the ENOSIS in GC public schools to be reconsidered. In the meantime GC Minister of Energy Giorgos Lakkotrypis kept giving press statements stressing that a solution was not a precondition of the development of the island’s hydrocarbons.

Conclusion

From the very beginning, GC actions in offshore Cyprus could be perceived as a political tool through which negotiations could be achieved via an upper hand. In addition to being utilized as a tool at the negotiation table, the natural gas issue has been
used to assure the GC administration’s regional role as an EU member state. Although Cyprus became an EU member in May 2004, inability to reach a solution on the island through the Annan Referendum held in April 2004, during which a “No” vote came from the southern part of the island, made Cyprus somehow an odd member. Right after the referendum the UN secretary general defined the process as a lost opportunity, and the EU Commissioner responsible for expansion, Verheugen, made remarks about the EU having been betrayed or cheated by the GC.64 Despite the political victory, this was a serious prestige loss on behalf of the Greek Cypriots and their international image, where Turkey’s and the TC’ longstanding negative image as negotiators was reversed.

Furthermore, through the hydrocarbon exploration activities, the GC leadership tried to bring back long lost international interest to the Cyprus problem while at the same time it was clear that Turkey would react aggressively to such an initiative. Such a tension could help the GC in two ways. On the one hand, it could reverse the negative international image and could bring the support of international actors such as the EU, US and UN back into the picture. On the other hand, this could challenge Turkey in terms of her increasing her role as an energy transit country in the post-Cold War era.

Furthermore, especially after the economic crisis of 2005, the GC experienced a serious trauma, as citizens waited in long ATM queues to withdraw 100 euros per day and serious amounts were trimmed from accounts.65 The hope that hydrocarbon exploration and the prize that it could bring served as an important psychological tool for domestic political consumption that worked in two ways. One, the GC leadership was trying to rebuild domestic economic confidence. Two, the presence of hydrocarbon potential presented another leverage at the negotiation table.

From the very beginning, GC actions in offshore Cyprus could be perceived as a political tool through which negotiations could be achieved via an upper hand.
Endnotes


5 Ibid.

6 Ibid.


11 Hereafter “GC”

12 Fulya Ozerkan, “Turkey, Israel to Examine Building Gas Pipeline”, *Times of Israel*, 13 October 2016.
13 Sohbet Karbuz, “How to Frame and Develop the Necessary Cross-Border Energy Infrastructures between Cyprus, Turkey, and Israel?”, in Koranyi (ed.), *Egmont Paper*.

14 Bryza, “Eastern Mediterranean Natural Gas”.

15 Ibid.


19 Bryza, “Eastern Mediterranean Natural Gas”.

20 Some of the international conferences attended for publicizing GC hydrocarbon potential:
   - Society of Exploration Geophysicists (SEG)
   - PETEX Conference & Exhibition
   - MEPEX/GEO Conference & Exhibition
   - American Association of Petroleum Geologists (AAPG) Energy Convention & Exhibition
   - Geological Society of London
   - APPEX Conference & Exhibition


23 Gürel, Mullen and Tzimitras. “The Cyprus Hydrocarbons Issue”, p. 3.

24 Companies who applied for the Second round:
   - Petra Petroleum Inc (Canada);
- ATP East Med Number 2 B.V. (US), Naphtha Israel Petroleum Corp. Ltd (Israel), DOR Chemicals Ltd (Israel), Modi ‘in Energy Limited Partnership (Israel);
- Total E&P Activities Petrolieres (France);
- Total E&P Activities Petrolieres (operator) (France), NOVATEC Overseas Exploration & Production GMbH (Russia), GPB Global Resources BV (Russia);
- Premier Oil (operator) (UK), VITOL (UK);
- Premier Oil (operator) (UK), VITOL (UK), Petronas (Malaysia);
- Edison International S.p.A. (operator) (Italy), Delek Drilling Ltd Partnership (Israel), Avner Oil Exploration Ltd Partnership (Israel), Enel Trade S.p.A. (Italy); Woodside Energy Holdings PTY Ltd (Australia);
- ENI (Italy), KOGAS (South Korea);
- C.O. Cyprus Opportunity Energy Public Company Ltd (Cyprus), AGR Energy AS (operator) (Norway);
- Oak Delta NG Exploration Joint Venture (US/Israel);
- Capricorn Oil (UK), Marathon Oil (US); Orange NASSAU Energie (Netherlands), CC Energie S.A.L (Lebanon);
- Winevia Holdings Ltd (Cyprus);
- RX-DRILL ENERGY CYPRUS LTD (Cyprus);
- PT Energi Mega Persada Tdk & Frastico Holdings Ltd (Canada/Indonesia/Cyprus);
- Emanuelle Geoglobal Rosario (Israel).


25 Ibid.

26 Elias Hazou, “Drill Ship En Route to Cyprus to Start Work in Block 9,” Cyprus Mail, 22 September 2014.

27 Applicants for the 3rd Exploration Licensing Round:

Blok 6
- Eni Cyprus Limited / Total E&P Cyprus B.V.

Blok 8
- Capricorn Oil (Cairn Energy) / Delek Drilling / Avner Oil Exploration konsorsiyumu
- Eni Cyprus Limited Eni Cyprus Limited

Blok 10
- Eni Cyprus Limited / Total E&P Cyprus B.V. konsorsiyumu
- ExxonMobil Exploration and Production Cyprus (Offshore) Limited / Qatar Petroleum International Upstream O.P.C.
- Statoil Upsilon Netherlands B.V.


29 Hereafter “TC”


32 UNFICYP, “Timeline”.


36 Gürel, Mullen and Tzimitras, “The Cyprus Hydrocarbons Issue”.

37 Ibid.


41 UNFICYP, “Timeline”.


45 Hazou, “Drill Ship En Route to Cyprus to Start Work in Block”.
46 Ibid.
47 Elias Hazou, “Drilling for Cyprus Gas”.
48 Ibid.
50 Elias Hazou, “Drilling for Cyprus Gas”.
53 Jean Christou, Jean, “Turkey Warns over Cyprus’ Third Licensing Round (Update 1: Adds Cyprus Govt Response)”, Cyprus Mail, at http://cyprus-mail.com/2016/03/26/turkey-warns-over-cyprus-third-licensing-round/?hilite=third+licensing+round (last visited 29 June 2017).
56 - Exploration Block 6: Eni Cyprus Limited / Total E&P Cyprus B.V.
   - Exploration Block 8: Eni Cyprus Limited
   - Exploration Block 10: ExxonMobil Exploration and Production Cyprus (Offshore) Limited / Qatar Petroleum International Upstream O.P.C.


64 de Quetteville, “EU Accuses Greek Cypriots of Betrayal over Island’s Peace Plan”.