



Cyprus Oil & Gas Update 1

This is our firm's first Cyprus Oil & Gas Update. We are looking to keep practitioners specializing, or working from time to time, in oil & gas matters informed as to developments in the Cyprus oil and gas sector.

Our firm's founder, before practising in Cyprus, has practiced at the energy department of an international law firm's offices in London, specializing mostly in oil and gas matters. In Cyprus he was also involved in a major project, advising the buyer, in relation to the construction of oil tank-farms and terminals in Cyprus. Now that Cyprus is exploring its capabilities in the oil and gas sector, even though this is a brand new area of law for Cyprus lawyers, we have the legal expertise Cyprus energy lawyers are required to have in order to advise international clients looking to involve themselves in oil & gas exploration (and related matters) in Cyprus.

The Cyprus Exclusive Economic Zone and the First Licensing Round

Cyprus has signed exclusive economic zone agreements with Egypt, Israel and Lebanon (but the latter has yet to ratify the relevant agreement). The exploration area of 51,000 square kilometers is part of the exclusive economic zone of Cyprus and is divided into thirteen exploration blocks (offshore).

The first licensing round related to only one block, i.e. Block 12, when Houston-based Noble Energy was awarded a three year exploration license, and a production sharing contract was signed in October 2008.

Noble Energy started drilling in September 2011 and has announced, in December 2011, that it has discovered a natural gas reservoir ranging from five to eight trillion cubic feet.

The Second Licensing Round

The Cyprus government approved the launch of a second licensing round for the remaining twelve offshore blocks (covering an average of approximately 4,000 square kilometers each). The public announcement was made in February 2012 and expired after a three-month bidding period.

According to government announcements, fifteen bids were submitted from five companies and ten consortia, for nine of the twelve remaining blocks. The companies involved come from fifteen different countries and reveal some big names in the energy world such as Total, KOGAS, Russian Gasprombank, Malaysian national company Petronas, Italy's ENI and Edison, Marathon Oil of the USA, Australia's

Woodside Energy Holdings, VITOL and Premier Oil of the UK. A full list of bidders can be provided on request.

In accordance with the relevant legislation, the bids need to be evaluated by an advisory committee comprising of the General Secretaries of the Ministries of Commerce, Foreign Affairs, Finance, and Agriculture, the Attorney General, the Head of the Geological Survey Department and the Head of the Department of Energy. This advisory committee will submit its recommendations to the Minister of Commerce who will then seek approval from the Council of Ministers, within six months from the expiration of the bidding period. Negotiations will then commence with the successful bidders and licenses are expected to be awarded in 2013.

The relevant legislation and regulations are available in English and so is the model production sharing contract. These documents can be provided on request.

We will revert with the decisions of the Council of Ministers once these are made available in another Cyprus Oil & Gas Update. In the meantime, if you have any related questions/queries please do not hesitate to contact us.