

September 2, 2012 5:16 pm

Mediterranean playground for oil groups

By Guy Chazan

Best-known for sun, sea and sand, the Mediterranean has suddenly become a playground for the global oil industry.

The Arab Spring, and a series of huge natural gas finds in the so-called Levantine basin have piqued interest in an area that barely made it on to oil companies' radar a decade ago.

Italy's partial relaxation of a ban on offshore oil and gas drilling introduced in the wake of the 2010 Deepwater Horizon disaster has also stimulated activity, with a clutch of companies now dusting off plans to drill in the Adriatic.

Malta is the latest spot in the Mediterranean to debut on the oil map. Last month, Genel Energy, the oil company run by former BP chief executive Tony Hayward, said it had bought a stake in exploration blocks off the coast of Malta from AIM-quoted explorer [Mediterranean Oil & Gas](#).

Bill Higgs, MOG's chief executive, says the revolutions that swept north Africa and the Middle East last year have encouraged companies to take a fresh look at the region. "There are a lot more opportunities than there were before the Arab Spring in places like Egypt, Libya and Tunisia," he says.

That was reflected in Egypt's recent oil licensing round, which attracted a huge volume of bids. "I've seen a significant number of international oil companies looking to consolidate their position in Egypt and Libya and new entrants coming in," says John Conlin, an energy lawyer at Norton Rose.

But it was the big finds in the eastern Mediterranean that fundamentally changed the industry's view of the region. Since 2009, some 35tn cubic feet of gas – roughly half of Canada's total reserves – have been discovered in the deep waters off Israel and Cyprus, much of it by the US independent [Noble Energy](#). One of the fields, Israel's Leviathan, which was discovered in 2010, was the world's largest deepwater gas find in a decade.

The US Geological Survey estimates the Levantine Basin, a subsea area which runs from Egypt

north to Turkey, contains 1.7bn barrels of undiscovered, technically recoverable oil and 122tn cubic feet of gas – a massive prize. Leviathan, and the Aphrodite find in Cyprus last year, seemed to confirm the optimism.

“Those discoveries really invigorated interest in the Med,” says Brian O’Cathain, chief executive of AIM-quoted explorer Petroceltic, which has interests offshore Italy. “An area that wasn’t considered prospective was found to have huge amounts of gas.”

For Genel, the deal with MOG is a bet that offshore Malta will prove as rich in hydrocarbons as nearby Libya. Mr Hayward knows Libya well, having spent months negotiating BP’s famous \$900m exploration deal with the Gaddafi regime in 2007. In an interview last month, he said Malta was an extension of Libya’s Sirte basin, one of the world’s great oil-producing areas. Malta’s waters had “significant exploration potential”, he said.

While Malta remains a frontier play, other countries like Cyprus are now well-established in the oil and gas universe. The island’s second licensing round this year attracted bids from 15 companies, ranging from supermajors like France’s Total SA to smaller explorers like Cairn Energy, for nine offshore blocks. By contrast, its first licensing round in 2007, barely noted by the industry, resulted in only once licence being issued – to Noble.

Meanwhile, prospects have also perked up in Italy, which last month eased its ban on oil drilling in coastal waters. The restrictions still apply for new projects, but all ventures that were up and running before the Gulf of Mexico oil spill can now proceed. Mr O’Cathain of Petroceltic says the company will resume drilling next year, pending the necessary environmental permits.

Spain is also attracting interest. Cairn has plans to drill in the Valencia Basin off the eastern Spanish coast in 2014. It will also submit bids for an offshore licensing round in Lebanon next year.

Yet the Mediterranean is not a walk in the park. Explorers venturing into its waters risk getting caught up in a complex web of regional squabbles and rivalries. Turkey has repeatedly told oil companies to stay away from Greek Cypriot waters. Last year, Italy protested against Malta’s publication of a tender for oil and gas exploration covering parts of the Ionian Sea claimed by Rome. Malta itself is in dispute with Libya over offshore areas further to the south. And Israel and Lebanon have sparred over Leviathan, which is close to the disputed line separating their territorial waters. Hizbollah, the radical Shia group, has accused Israel of stealing Lebanese gas.

However, MOG’s Mr Higgs dismisses the geopolitical dangers. The Mediterranean is “proving to be a place with relatively low political risk, especially on the European side”, he says.