Will the PIGS ever fly again?
The nations of the southern tier of the Eurozone, the so called PIGS; Portugal, Italy, Greece and Spain have been particularly hard hit by the double whammies of the credit crunch and the fall-out from the Macondo disaster and it will take a few years for the offshore sectors to recover the momentum they had earlier in the previous decade. At the present moment interest is focusing in Spain and Greece on redeveloping old fields such as Amposta Marine and Kavala as sites for underground gas storage. Ideally the E.U. would like to have member nations to have sixty days supply of gas stored, but in many nations, like the U.K. present capacity is only a matter of days at peak consumption rates. Portugal falls outside the remit of this article, but Italy always has a few projects to keep the industry busy, but unfortunately environmental concerns, following Macondo, have been raised delaying such innovative projects as the Ombrina Mare development in the Adriatic because it is relatively close inshore. The impetus for keeping the Mediterranean countries busy has thus shifted to looking for work outside the region. Dragados in Spain, once it has finished work on the jackets for the Castor/Amposta gas storage project will build two platforms for Hess Denmark’s South Arne field, and Rosetti Marino in Ravenna will follow the load out of the Guendalina platform for ENI with work on three platforms to be used in the development of the HP/HT Jasmine field in the U.K. sector of the North Sea. Meanwhile Intermare Sarda is engaged on work for Total’s West Franklin field another U.K. HP/HT field development. On the exploration front there is a glimmer of hope with the Spanish government recently awarding Cairn Energy two 100% interest hydrocarbon licences which consist of five contiguous blocks in the Gulf of Valencia. The blocks represent 3,992 km² and have water depths ranging from 50 to 1000m.

In this region there is still some pipeline activity with the 32-inch 200km Interconnector-Greece-Italy Poseidon across the Adriatic undergoing FEED by a JV of IntecSea & IV Oil & Gas at the time of writing. This pipeline will carry gas from BP’s Shah Deniz field in Azerbaijan. This section will complete the Italy-Turkey-Greece project and may well provide a link to the Nabucco Pipeline, at its western end; the Greece-Turkey section came onstream in 2007.
Stormy Waters with Eastern Promise

Rocky Ripples

Across the Mediterranean the future situation in North Africa and southwest Asia is also looking rocky. The relatively plain sailing of the last few decades is being brought into relief by the domino effect of the credit crunch resonating through the Mahgreb and leading, to the collapse of President Ben Ali’s long running regime in Tunisia, sparking fears across the Mediterranean of interruptions in gas supplies through the five trunklines that link that country to southern Europe.

At the time of writing perhaps inspired by the events in Tunisia, on the 11th of February Mr. Mubarak decided to stand down and hand power to the military which has dissolved the parliament and will rule for six months or until elections can be held. After 18 days of public disquiet in Egypt which is the most populous Arab nation. Many of Egypt’s international allies such as the UK, USA and Turkey have also made calls for President Mubarak to make an orderly transition after mass protests lasting 18 days demanding the end of President Hosni Mubarak’s 30-year reign. Initially Mr. Mubarak said he would transfer some of his power to the vice-president Omar Suleiman but stay in power until polls in September. Protest groups said government measure did not go far enough and again called for the resignation of Mr. Mubarak. The crisis has lead to a two year high in Brent crude oil prices. IOCs removed all non-essential personnel and their families from the country. The evacuated staff have begun to tickle back in to the country. Some companies had also halted drilling operations which now look to be resumed soon. The Egyptian economy is reportedly losing at least $130m per day whilst the present situation continues. Most Egyptian oil & gas fields are far from population centres and at the time of writing there was no reported disruption to exploration and production activities, although on the 1st of February RWE Dea Nile GmgH declared force majeure on the Atwood Aurora Jack-Up operating offshore Mediterranean Egypt. Troops have been deployed along the SuMed oil pipeline linking the med with the Red Sea. There has been one attack on a major gas trunkline link Egypt to Jordan, the attack by saboteurs has caused a metering station to burn out of control as well as forcing the temporary suspension of gas supplies to Israel, Jordan and Syria. The actual pipeline is reported to be intact. The Suez Canal is also a key route for the transport of LNG to the European market and with new facilities coming onstream in Qatar traffic through the canal was expected to increase this year. To ensure the safe transport of shipping through this key route a special military authority had taken command of the Canal Zone. This ripple may affect other authoritarian Arabic/Middle east states such as Yemen (President Ali Abdullah Saleh has stated he will not seek to extend his term past 2013 nor pass power to his son), Jordan (which has reshuffled its cabinet and replaced its Prime Minister) Algeria, Bahrain, Libya and Iran (where some violent protests have erupted). In the shadow of these events RWE Dea Egypt announced on the 26th of January 2011 that it had made the NEA 3x gas discovery in its wholly operated North El Amriya concession. The successful testing of the reservoir opens chances of further future discoveries in the licence. The Egyptian Natural Gas Holding Company (EGAS) is also planning to offer up 17 new licence areas in the Mediterranean Sea for exploration. The licences up for offer consist of blocks relinquished by IOCs such BG, BP, RWE & ENI. Interest in the offshore Nile Delta has dwindled in recent years with IOCs hesitant to invest in such a high cost area with low gas prices, but with BP & RWE Dea planning to invest $9 billion in the deepwater West Nile Delta project could provide some added impetus for IOCs to rejoin the fray if political conditions remaining favourable.

In the aftermath of Macondo incident BP has assured Libyan officials that its deep water drilling campaign in Sirte basin in the first half of 2011 will hold no surprises. BP has contracted the new-build Pride Deep Ocean Ascension drillship. The Deep Ocean Ascension will be working in water slightly deeper than that in which Macondo was located (1600m). BP’s Sirte basin licences (along with acreage in the onshore Ghadames basin) were awarded by NOC in 2008 with an eye-watering $2bn exploration and appraisal deal. The ultimate goal of BP offshore Libya is to find enough gas to justify the construction of a new Liquefied Natural Gas export facility.
Eastern Promise

Finally the Levantine basin in the eastern Mediterranean has become the new exploration hotspot in the area, with Noble Energy’s 8.4 trillion cubic foot Tamar and the 600 billion cubic foot Dalit gas fields discovered in 2009. This region has over the last 50 years been a source of international niggles and the presence of hydrocarbons will no doubt add a little more fuel on this fire. With Israel traditionally being a net importer of hydrocarbons the Tamar find is a significant boon. Israel quite understandably would like the field on steam as soon as possible. One major factor in the decision making on Tamar’s concept selection will be security concerns. Any development with surface production facilities would make it vulnerable to attack by one of the many factions in the region with anti-Israeli leanings. A previously suggested TLP for Tamer would be susceptible to a surface rocket attack. Noble’s further discovery of the Leviathan gas find in the Rachel Licence close to the Greek Cyprus border, which has been muted as one of the world largest in the last 10 years with pre-drill resource estimate of 16 trillion cubic feet held in a 324 square kilometre structure has only increased the stakes. There are also some, as yet unresolved, maritime boundary issues with Israel’s northern neighbor Lebanon. In a recent statement the United Nations Interim Force in Lebanon (UNIFIL) maintained that it would not be responsible for delimitation of the disputed maritime boundary between Israel and Lebanon. Lebanon had requested the UN’s involvement, after an increase in Israeli exploration activity. Lebanon approved a new energy law in August 2010. It is looking to start offshore seismic activity in 2011, and on intent in launching an offshore licensing round in 2012.

Also on the radar is the issue of taxation. On the 23rd of Jan 2011 the Israeli government approved a near doubling of the profit tax on gas and oil extracted from its territory, a move of considerable significance. The vote was overwhelming in the cabinet to accept the recommendations of a government committee on the taxation on energy profits from 30% to between 52 and 62 percent. There will also be monies set aside to a special fund from the income aimed at a range of public needs. This should become law in the next few months. How this increase in the Israeli taxation regime will affect future exploration is unclear.

A new concept has been muted for the exploitation of Levantine basin gas. The Delek Group (15.625% partner in the Tamar and 22.67% partner in Leviathan finds) has approached the Greek Cypriot Government with the idea of gas export from Israeli waters to a facility on the island. Shell has already floated the idea of a $6bn LNG import terminal to supply the island with gas. The foreign ministers of Cyprus and Israel signed a maritime border demarcation agreement on December 17 2010.

Figure 1: Levantine Basin (Source Infield Offshore Energy Gateway)
The Greek Cypriot Government is at the moment undertaking an assessment of the quantity of offshore hydrocarbons in part of its territorial waters. This process should be completed by March 2012 according to government sources, and present estimates are in the region of 10 trillion cubic feet of gas. At the time of writing the Greek Cypriot Government has yet to make any decision on the LNG import vs. Israeli gas options. The activity in the Greek Cypriot sector will be closely monitored by the Northern Turkish Cypriot part of the Island who has objected to exploration saying that any natural reserves discovered belong to both South and North Cyprus. Turkey has also objected to exploration in the southern Cyprus maritime area and may hinder exploration. Noble was awarded Block 12 offshore Cyprus in 2008 and is contractually obliged to commence drilling between October 2001 and October 2013.

In conclusion the future course of the Mediterranean offshore should be assured, but recent political events and long running feuds mean that this hopeful picture will be all but simple to completely fulfill.

Figure 2: Total Offshore Facilities CAPEX for the Mediterranean Region (Source: Infield Systems’ OFFPEX Market Model Q42010)