

Legal Update

Cyprus Hydrocarbons Exploration and Exploitation: the Legal Framework and Licensing for hydrocarbon reserves in Cyprus' Exclusive Economic Zone

Cyprus has found itself at the epicentre of the oil and gas industry due to the recent discovery of hydrocarbons within its Exclusive Economic Zone and the wider potential emerging in relation to natural resources exploitation in the Eastern Mediterranean region. Cyprus has legislated to afford parties interested in prospecting, exploring and exploiting hydrocarbons with an efficient legal framework, which is also fully aligned with International Law and European Union (“EU”) Law.

Within the domain of Public International Law, Cyprus has exhibited unprecedented conformity with the international legal framework in declaring its rights and enabling the exploration and exploitation of its offshore hydrocarbons. Cyprus ratified in 1988 the United Nations Convention on the Law of the Sea (UNCLOS) and bilateral agreements have been signed between the Republic of Cyprus and its neighbouring countries.

The Delimitation of the Exclusive Economic Zone of Cyprus has been agreed and signed with Egypt, based on the median-line principle and in accordance with the provisions of the UNCLOS. Likewise, an agreement has been signed with Lebanon and Israel. These bilateral treaties between Cyprus and Egypt (2003), Lebanon (2007) and Israel (2010) have been respectively concluded delimiting the Exclusive Economic Zone of Cyprus, which has been divided into 13 Exploration Blocks covering approximately 51,000 square km.

The Hydrocarbons (Prospection, Exploration and Exploitation) Law 4(I) of 2007 (“Law 4(I)/2007”) and the Hydrocarbons (Prospection, Exploration and Exploitation) Regulations of 2007 and 2009 (“Regulations”) govern the exploration and exploitation of hydrocarbons in Cyprus. Law 4(I)/2007 transposes Directive 94/22/EC in the national legal order of Cyprus, which EU instrument provides, inter alia, for the right of Member States to determine the areas within their which shall be made available for the activities of prospecting, exploring and exploiting hydrocarbons.

Pursuant to the aforesaid legislative framework, three types of licenses are available for successful contractors:

(a) Prospection Licence

The Prospection License enables the licensed contractor to prospect, using the geophysical methodology at his disposal, towards the evaluation of the offshore hydrocarbon potential of Cyprus. With a maximum duration of 1 year, the prospection license does not allow any exploration operations.

(b) Exploration Licence

The Exploration License is granted for an initial period of 3 years and is renewable for up to two terms of not more than 2 years each, which renewal however entails relinquishing 25% of the surface area for which the

original period of 3 years was concerned with. It enables contractors to explore a particular block in Cyprus' Exclusive Economic Zone.

(c) Exploitation Licence

Exploration Licenses are issued for a maximum period of 25 years and are renewable for periods of 10 years, upon a relevant application at least 1 year prior to the expiration of the first period.

The first licensing round, procured in 2007 for the grant of Hydrocarbon Exploration Licences and subsequent Hydrocarbon Exploitation Licences (upon a commercial hydrocarbon discovery during exploration) concerned 11 Exploration Blocks within the EEZ of the Republic. Blocks 3 and 13 were excluded. The Licensing Round was based on the MC2D-CYP2006 seismic data that were acquired by PGS Geophysical in 2006. Upon extensive negotiations after the submission of the applications in the framework of the First Licensing Round, an Exploration License for Block No 12 was granted to Noble Energy International Ltd on the 24th of October 2008.

Further to 3D seismic survey which was acquired in 2009, the findings for Block 12 focus into a significant geological structure known as Cyprus-A prospect. Cyprus published its invitation for applications for hydrocarbon exploration licences and subsequent hydrocarbon exploitation licences in respect of certain acreage in the Exclusive Economic Zone of Cyprus in February 2012.

Exploration for oil and gas offshore the Republic of Cyprus is certainly in a developing phase and the opportunity for involvement is currently at its highest levels. A considerable amount of geophysical data that is publicly available, the stable business and political environment and the tax efficiencies (zero taxation on revenues from offshore hydrocarbon exploitation) result in Cyprus becoming a jurisdiction attracting worldwide interest in the energy industry.

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For more information or questions in relation to the Hydrocarbons licensing activity in Cyprus' EEZ contact us at energy@antoniou.com.cy.