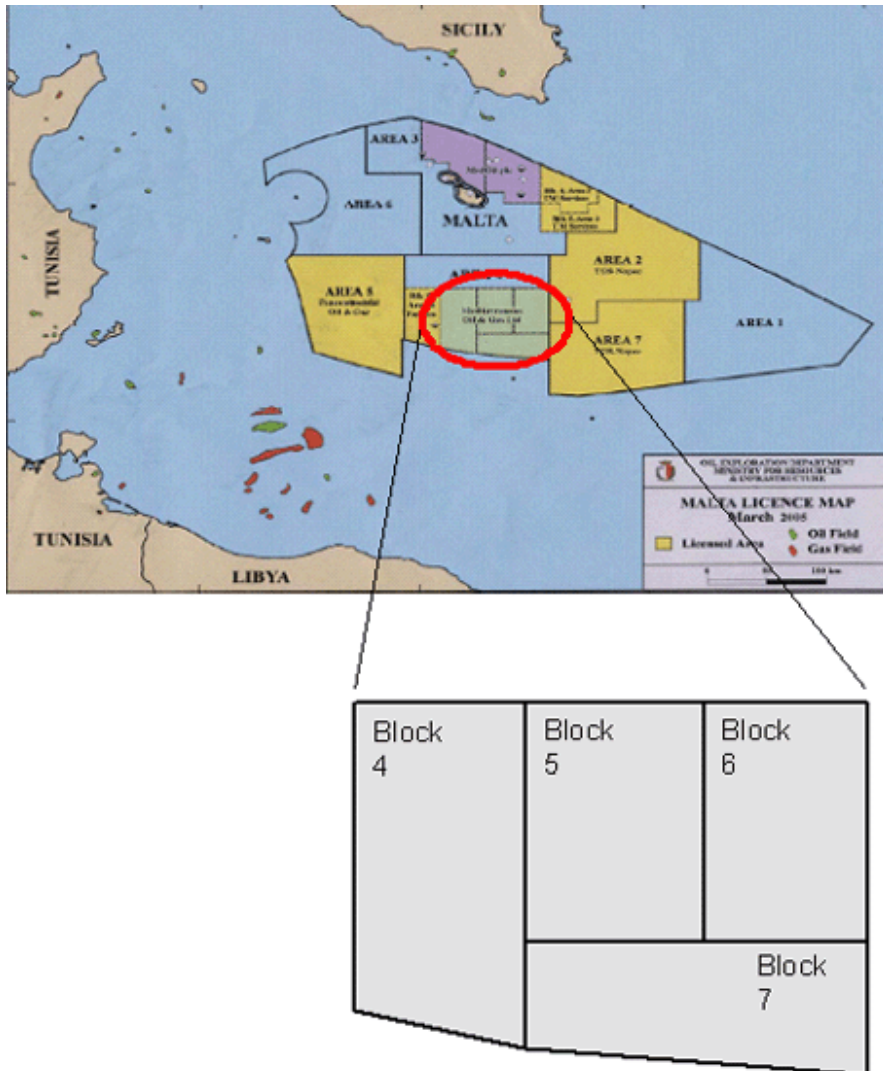


### Malta's Energy Prospects. (3)

by Dr. Alex Sceberras Trigona

The same governmental silence prevailing over what is happening to the licences granted in the North and East of Malta to Medoil and to Global/RWE respectively also shrouds what is happening to the licences south of Malta. However, much more news has been seeping through here.

In Area Four, the four Blocks 4,5,6 and 7 were originally licenced to Mediterranean Oil & Gas plc (MOG) operating through its subsidiary Malta Oil Party Limited (MOL). These have now been rather rapidly 'farmed into' by Leni Gas & Oil plc (LGO) in just 2 months. MOG was unsuccessful in over a year's attempts through Tristone Capital Limited, which it had engaged in London, to attract a 'farm-in' partner. LGO have even announced that the Maltese authorities approved its 'farm-in' agreement.



Map 2: Malta Licence Map, Area 4, Blocks 4,5,6 and 7. Courtesy, Malta Government.

This rapid succession of events as listed in more detail hereunder is noteworthy by any standards.

1. The Exploration Study Agreement between Government and MOG signed on 24<sup>th</sup> March 2005 was extended by letter on March 7, 2007.
2. LGO was incorporated and listed on the London Stock Exchange (AIM) in March, 2007.
3. LGO signed its 'farm-in' agreement with MOG on the 18<sup>th</sup> April, 2007, with LGO acquiring 20% of MOG's interest in these four blocks by agreeing to fund 2D and 3D seismic suveys.
4. LGO announced approval of its 'farm-in' Agreement by the Maltese authorities on the 9<sup>th</sup> May, 2007.
5. LGO engaged MV Geomarine of Seabird Exploration to start new seismic work on 20<sup>th</sup> May, 2007.
6. LGO's publication of its MOG Agreement of 18th April reveals that, "LGO proposes to fund a 2D and 3D seismic survey for the 4 blocks on Area 4, during 2007 with a view of identifying drillable prospects by early 2008."
7. The LGO/MOL Agreement of 18<sup>th</sup> April stipulates that, "The seismic work is a precursor to entering into a production sharing contract over the area during the current ESA term to March 2008".
8. LGO has already engaged McDaniel & Associates Consultants, one of the world's leading petroleum consulting firms specializing in geological and petroleum engineering studies, to act as a technical advisor and the Competent Person to the Company and also to provide advice on 'work programmes' on LGO's latest farm-in blocks in Area 4.

The time focus is obviously: "identifying drillable prospects by early 2008" in point 6, and the smooth and soft diplomatic turn of phrase instead of a hard legal obligation with the words "is a precursor to entering into a production sharing contract over the area during the current ESA term to March 2008" in point 7.

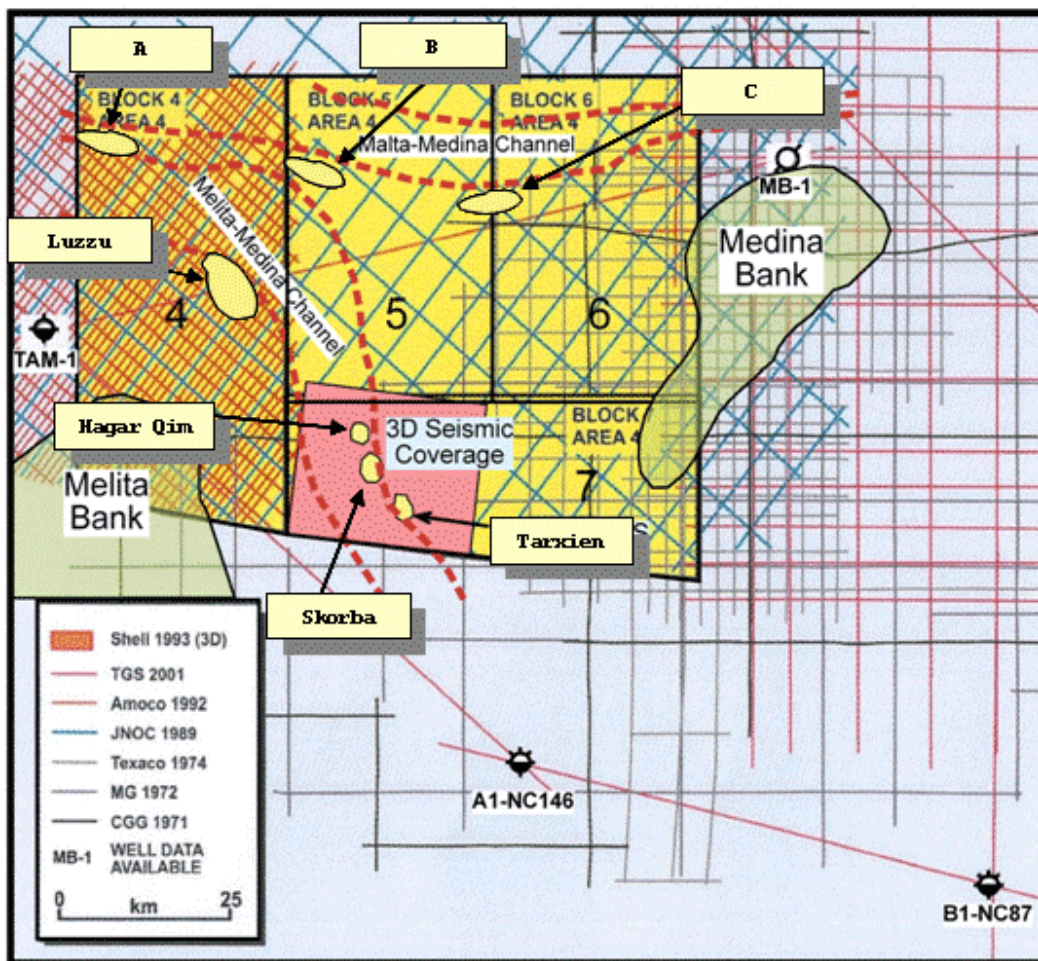
PR instead of commitment to drill.

All pointers therefore suggest preparations for a huge public relations exercise during the forthcoming electoral campaign, instead of securing firm commitments. One wonders after all whether MedOil could have got away without 'dropping' its licence by adopting similar diplomatic wording with a 'farm-in operator'! In the absence of a firm Production Sharing Contract with either Global/RWE on its 2 Blocks or with MOG/LGO on its 4 Blocks, it would seem that these two contractors got a much better deal for themselves than MedOil did, without incurring any risk or high costs.

Whilst it is true that Medoil's lack of a farm-in partner is its main failing in contrast to both Global/RWE and MOG/LGO there is still no hard legal obligation to drill. The arrangements are all in terms of options. Under the terms of the agreement with MOG, LGO receives an entitlement to a full 20% interest in these 4 blocks in Area 4 for \$1.5million and in the event that a Production Sharing Contract is granted (LGO emphasises "pursuant to provisions of the Maltese Exploration Study Agreement"), LGO will have the right to further sole fund 80% of the first exploration well cost to increase its participating Interest in Area 4 to 50% and MOL will maintain a participating Interest of 50% by funding only 20% of the exploration well costs. LGO's obligation to contribute sole funding after 24 months from now, when it will have contributed \$1.5million in the first 12 months and \$1million in the following 12 months, shall according to LGO "in aggregate amount not exceed US\$5,000,000". Nevertheless, the LGO/MOG Agreement holds that, "After expenditure of USD5 million, LGO may increase

its interest in a production sharing contract over the ESA area to 50% (MOG will reduce to 50%) by funding 80% of the cost of a well.”

The absence of an obligation to drill is a pity especially with regards to MOG’s very rich 4 blocks which remain untapped. In 2006 RPS had given them a best estimate of 1,500 million barrels of oil prospective resources and a high estimate at 14,500 million barrels of oil in place. RPS had identified 9 prospects of which 7 appear here as A,B,C, Luzzu, Hagar Qim, Skorba and Tarxien.



Malta Area 4 Blocks 4, 5, 6 and 7

[Source: RPS Energy]

Before any PSCs are concluded it might therefore be advisable to review Malta’s oil licencing policy.

1. It is time to question why such large chunks of Malta’s continental shelf are granted to the same licensee. The division of our Areas into Blocks suggests the granting of licences at least on a Block by Block basis and not to grant four or two Blocks at a time to the

- same licensee. Global/RWE's 2 Blocks are 12 times the size of Malta and MOG/LGO's 4 Blocks are 20 times the size of Malta.
2. It might be far better for Malta's bargaining strength to sub-divide existing Blocks into Malta-sized Plots. Over the past three decades the United Kingdom, Norway and Denmark have all been granting licences on Plots of 100 square kilometres each, thus Global's area would have been subdivided into 30 Plots and MOG's into 50 Plots.
  3. The countries mentioned pay great attention not to grant the same licensee two adjacent Plots. On the contrary they make sure that Plots granted to the same licensee alternate to stimulate competition. This is especially observed with regard to 'frontier' Plots. In Malta's case not only have we not subdivided Blocks or alternated the resulting Plots but we gave two adjacent and four adjacent huge blocks to the same licensee in Global and MoG's case and whole Areas consisting of many Blocks to the same licensee elsewhere.
  4. This subdivision would accelerate chances of production. It would also help in benchmarking operations. If Malta is really on the threshold of oil production then this would be of the utmost necessity for our administrators to manage and monitor the oil companies' operations properly. Recording and comparing their performance would lead to greater learning and understanding by our administrators. In fact a 'cadastre' or 'Kadast' system would greatly improve organization and management of oil company rights in connection with all the various parts of our continental shelf.
  5. Especially now that much more geological information has been accumulated by Government over nearly 50 years of exploration licensees may be given the right to choose where to drill a first well, but relinquishment of the rest of the block or blocks cannot be as slow as envisaged under the present relinquishment terms. It should aim to be simultaneous with production. Why should a licensee having a number of blocks keep the rest of say 5000 square kilometres of Malta's continental shelf 'frozen' whilst only one singular solitary drill is in production. Relinquishment should be much faster than the 25% envisaged in the 2<sup>nd</sup> and 4<sup>th</sup> year in the present model PSC. The significance of this point increases because of the large size of territory per licensee. Thus If MOG/LGO concluded a Production Sharing Contract today only one of its 4 blocks would have to be given up in 24 months time, and only another block in 48 months! It is only at the end of the 6<sup>th</sup> year that "the Contractor shall retain only the Production Area". Obviously the relinquishment terms applicable today would become acceptable if the blocks were subdivided and alternated as advised above.
  6. Governmental approval of a 'farm-in' agreement, which is really an assignment, is at present unconditional both by way of payment as well as in terms of precise obligations to drill and relinquishment as seen above. This should be revised.
  7. Above all else Maltese youth must be much better prepared to handle oil matters. This is advisable not only to administer our own oil fields better but because we could again be in a position to offer petroleum servicing to neighbouring Libya as we used to do in the '70s and '80s. When I was Councillor of the American University of Cairo (AUC) our Wardija branch was then a most sought after post-graduate school in petroleum studies. Malta needs re-establishing a Petroleum Studies Centre to train petroleum engineers, petroleum accountants, petroleum geologists, petroleum diplomats and petroleum lawyers. Whether this will be done by Government directly or through the University, without partners or with a foreign university or universities in a joint venture, it must be done immediately. Time is of the essence.

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