

**Address of prof. Yannis Maniatis, Deputy Minister, Ministry of
Environment, Energy and Climate Change for**

***‘Oil & Gas Exploration in Greece – Challenges and
Opportunities’***

Chania Chamber of Commerce Thursday, September 29th 2011

Dear Colleagues, Esteemed Delegates, Ladies and Gentlemen,

It's a great pleasure for me to be here today among known, knowledgeable and deeply appreciated colleagues, who have already contributed, contribute and will continue to contribute in the developing of necessary technical knowhow and expertise for the exploitation of our country's energy resources.

I am glad that you took the initiative to discuss in depth this particularly complex issue, of critical importance for the national economy and the overall strategic positioning of Greece. Moreover, I am honoured by your invitation to open the works of this conference, as this invitation is also an acknowledgement of the efforts which have been made so far and their high value.

I would like to express my personal satisfaction for the completion of the first phase in an effort that started almost immediately after I undertook my duties as Deputy Minister of the Environment, Energy and Climate Change: the establishment of the Hellenic Hydrocarbons Management Company S.A. and the modernization of Law 2289/1995, which are included in the Law 4001/2011 ratified by the Hellenic Parliament last month.

This legislation is a crucial step in the direction of restarting the process of domestic oil and gas exploration and production, almost fifteen years after the last exploration round was tendered back in 1997. The presentation of this legislative initiative is not just a typical process for me. It is part of our political obligation to clearly and publicly analyze our actions, our motivations and the strategic plan that governs the policy priorities of the Ministry of the Environment, Energy and Climate Change.

Our top priority is the need to consolidate our nation's energy security by diversifying our importing sources and routes, increasing our energy efficiency, aggressively promoting the production of electricity from Renewable Energy Sources, and boosting our domestic oil & gas production, which in the 1980s accounted for almost 10% of Greece's final oil demand.

Law 4001/2011 provides us with all the necessary legal tools in order to rapidly promote the exploration & production of Hellenic hydrocarbons, and as you very well know *speed is of the essence*, for a country that is nearly 100% dependent on imported oil and gas resources.

Yet, apart from extremely high levels of import dependency, Greece's energy vulnerability is also aggravated by very high levels of oil consumption, as a percentage of our overall final energy supply. Oil accounts for almost 56% of our country's Total Primarily Energy Supply (TPES) compared to an EU average of less than 40%, while Greece is the only EU member-state, after Malta and Cyprus, that covers such a high percentage of its electricity generation, approximately 15% in 2008 according to calculations, by burning fuel oil products.

This level of dependence is unsustainable. A level of dependence that makes our already fragile economy highly vulnerable to international price fluctuations or even worse, to the probability of a major regional or international supply interruption. Greece spends annually approximately EUR 11-12 billion for import of crude oil and oil products. That cost could further increase if the price of oil, which is subject to speculation, spikes unexpectedly.

EUR 12 billion is more than half of the latest EU Structural & Regional Cohesion Funds (ESPA) that Greece secured from the EU for the period between 2007 and 2013. EUR 12 billion is almost half the expected benefit for Greece from the participation of the private sector (PSI / Private Sector Involvement) in the July 21st decisions of the European Council regarding the extension of the second financial support package for our country. Finally, EUR 12 billion is a burden we should no longer carry.

In times of crisis, such as the one we are facing, the best defence is to be creatively offensive and maximize the benefits we can secure for the exploitation of our country's mineral resources. In this context the detailed evaluation, rational organization and rapid development of Greece's hydrocarbon dynamic is a priority of paramount importance.

We should not underestimate the challenges we faced and we will continue to face, given the fact that there has been no exploration whatsoever since 1997 and that there was no operational mechanism available for the management of State Rights over the potential hydrocarbon resources and the tendering of the exploration/production licenses.

As a consequence of this fifteen-year long gap, many of the best practises, technological evolutions and investment incentives States were ready to offer in order to attract the attention of the International Oil & Gas industry were simply absent from the pre-existing legislative and regulatory framework, as it was detailed in Law 2289/1995. Moreover, many of the previously available data on the existence and exploitability of indigenous resources had simply become too obsolete to be useful to any party interested. Something needed to be done so that Greece could be pin-pointed down on the international oil & gas map as a potential producer state.

Dear Colleagues,

We need to always remind ourselves that we are entering an extremely competitive market in a highly volatile region, that of the South Eastern Mediterranean, which has become increasingly unstable over the last months. Every state in our region, including Turkey, Cyprus, Syria, Lebanon, Egypt and Libya, is either already producing or is in the process of exploiting its offshore oil & gas resources, like Lebanon and Cyprus.

This is a process, as you may very well know, that constitutes a complex, high risk, capital intensive and technically challenging enterprise that requires a lot of time and a lot of money. Getting the results we all hope for, requires careful planning, serious preparation, absolute transparency, reliable partners, unquestionable responsibility and constant supervision. There is media hype around the so-called “Greek Oil” and a lot of

exaggerations that can be qualified both as irresponsible and potentially dangerous.

So is there any Oil and Gas in the Greek Seas? Is it a Myth or a Reality?

The only responsible response at this point is that the answer will be given through the systematic research of our subsoil, the clear and detailed identification of those geological systems that fulfil preconditions for the creation and accumulation of hydrocarbons, as well as the completion of the necessary exploratory drillings that would confirm the existence of these hydrocarbons, detail their size, their quality and our ability to exploit them.

It is of course hopeful that we have had promising prospects for several areas both from pre-existing exploration activities, as well as from more recent explorations and successful findings in the territorial waters of neighbouring states. It is also hopeful that many major international oil & gas companies have expressed their interest for the discovery and exploitation of hydrocarbons in Greece. I am optimistic also because we have recently witnessed major discoveries in neighbouring areas which are geologically akin to ours.

Yet, what I want to repeat and emphasize is that only a detailed and persistent programme of seismic explorations and drillings would give us the accurate answers we all want and hope for. That is exactly what we have tried to organize, anticipate and implement. My core aim was to establish a new, up to date regulatory framework that would allow Greece to adapt to modern requirements and regain the lost ground of the last fifteen years, in comparison to other states.

This is the rationale behind Law 4001/2011 that establishes **the Hellenic Hydrocarbons Management Company S.A.** This new S.A, whose Articles of Association have been prepared in the form of a Presidential Decree, and whose Board of Directors will be selected through the transparent open government (open gov) process, will undertake the responsibility to organize and execute all the relevant exploration and/or production tenders, evaluate offers, select the winners, prepare the relevant contract agreements and constantly supervise their appropriate execution. Allow me to inform you that already both documents have been posted a few days ago on the opengov website for public consultation.

The Hellenic Hydrocarbons Management Company will also be responsible for the administration and utilization of all the pre-existing seismological databases, as well as the creation of new databases that will follow the exploratory rounds it will itself organize. The Company will also bear the responsibility for preparing all the detailed environmental protection, labour, safety and security regulations that will govern the operation of any oil and gas company in Greece.

The upgrading and updating of Law 2289/1995 follows the same principles and serves the same priorities which led us to the establishment of the Hellenic Hydrocarbons Management Company. Our main aim in re-drafting this legislation was to create, capitalizing on the experience of other EU states a completely transparent, competitive and investment-attractive legal framework that is fully harmonized with the best international practices

regarding the concession of oil & gas exploration and production rights.

In this context:

- (i) We incorporated into the redrafted legislation new research practises that have been successfully followed for more than a decade by all European and Mediterranean oil producing states, such as the Non-Exclusive Seismic Surveys
- (ii) We increased both the offshore and onshore areas that will be tendered for exploration in order to receive as soon as possible clear and credible data required to assess the hydrocarbon potential of our country
- (iii) We incorporated the Open Door Concession Rights System that would allow interested investors to ask for an exploratory concession in any available area without having to wait for the launching of a “tendering round”.
- (iv) We increased the transparency of the concessionary tendering process and the equal treatment of potential investors from the submission of their applications and their access to publicly available information until their final selection
- (v) We reduced the special income tax rate to 20%, since any higher taxation flat rate would be counter-productive for potential investors, especially for a frontier country like Greece where there have been no major discoveries. It should be noted though that

State revenues will not be adversely affected since the Special Income Tax rate will increase for areas that are believed to have a higher probability for the discovery of Hydrocarbon resources.

- (vi) We introduced a special regional development tax of 5% that will help finance any form of existing or future environmental and development initiatives by local communities
- (vii) We placed particular emphasis on the environmental safety regulations that will govern the exploration and production of hydrocarbons. We are following the strictest guidelines introduced by the European Commission after the Macondo Oil spill in the Gulf of Mexico, in order to minimize potential environmental dangers and maximize the safety and well-being of oil rig workers.
- (viii) We established a “Green Fund” that will be annually funded with 20% of the revenues generated by the exploration and production licences and leases paid by the international oil companies to State. The Fund will then be used to finance several environmental and energy development projects.

Dear Colleagues, Esteemed Delegates

As I already mentioned we need to make up for the lost time and we need all the help we can get from countries and companies who have been the pioneers in oil & gas exploration. In order to maximize the benefits of such cooperation for Greece, we have taken the following measures, which will be implemented within a

rigorous timetable and will complement the two aforementioned principal legal and regulatory “instruments”:

(a) The development of a Management Information System (M.I.S.) for the collection, classification and repositioning of the important wealth of information accumulated over the last three decades for oil & gas exploration, as well as the establishment of a National Databank according to international standards with the help of our own specialists. This National Databank will certainly increase our country’s attractiveness to potential investors.

(b) The detailed study and evaluation of the Regulations and Guidebooks for the environmental and personnel safety and security provisions followed during oil exploration and production activities in countries like Norway, will constitute the basis for the development of our own national rules and regulations.

(c) The official launching of the first international tender for the conduct of Non-Exclusive Seismic Surveys over an offshore area of approximately 200,000 km² which is located in Western Greece and to the South of Crete. Several internationally acclaimed companies have already expressed their interest to participate in the tender, which will offer the country the necessary updated and high quality information we will subsequently use in order to launch within 2012 the first international oil & gas concession round since 1997.

The cost of those Seismic Surveys will be split among several participants (multi-client surveys) and their results will then be sold as Information Packages to all interested parties. These sales will also guarantee a steady amount of feed-in capital for the Hellenic Hydrocarbons Management Company which will share part of the revenues generated by the selling of these Information Packages from the Seismic Surveying Company.

At this point I would like to stress that this Seismic Survey Tender followed a lengthy period of detailed public consultation during which several interesting proposals were made and later were incorporated in the tender document. Many of you present in this room, as well as several other colleagues in the international oil industry, made an important contribution in this regard and I would like to thank you all and commend you for your participation in this process.

Allow me to conclude this short address by informing you that the Law 4001/2011 has also clarified the ways through which the State will exercise its rights over the currently depleted natural gas field in the South of Kavala that we intend to transform into the country's first natural gas strategic storage facility.

Despite the fact that Greece's participation in both the ITGI and South Stream projects will ensure a high level of import diversification for the country, in terms of both import sources and importing routes, our national emergency response system will be severely handicapped by the continued absence of a strategic storage facility.

Let me inform you that the Privatization Advisor for the Nea Kavala storage facility has been selected in order to evaluate the best possible alternatives through which we could promote the

quickest possible implementation of a top priority project. Let me again repeat that the Strategic Storage Facility is imperative not only for the security of our natural gas supply but also for the liberalization of the domestic market, since part of the storage capacity could be leased to third parties. Moreover in cooperation with the Italian government we are promoting the financing of the facility's feasibility study through the Trans European Energy Networks or TREN-E.

Dear Delegates,

In these troubled and difficult times we are all in dire need for a source of optimism, for a source of encouragement that will allow us to face the current crisis not as a tragedy that nobody could stop, but as an opportunity to rise above the challenges of a reality that offending to us. Do we choose to excel, grow out of our egos and exit the crisis, or do we simply choose to do the least possible things and apathetically accept an impoverished future that we have prepared for ourselves due to our inaction?

I will not attempt to hide the collective responsibility of the political class for the current condition our country. I simply want to assure you that the establishment of the Hellenic Hydrocarbons Management Company is a serious effort that could help Greece out of its current predicament if we all choose to unite beyond party lines in order to protect and promote our national, and not our individual, gild or class interest.

The sector of Hydrocarbon Exploration and Production is a very complex undertaking that demands the combination of many sciences and expertises from a technical, economic, legal even

diplomatic point of view. We all need to unite and support this new and very promising initiative, whilst helping to transfer and more importantly to develop ourselves the necessary know-how that will enable Greece to maximize the exploitation of its natural resources in an era of national emergency.

Thank you very much for your attention.