

Offshore Lebanon – Will the Levant Basin be a Blessing or a Curse?

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Government delays, ongoing maritime border disputes and geopolitical instability have marred Lebanon's bid to exploit its share of the gas-rich Levant Basin. But with the government keen to create supply security for its energy-poor nation, can Lebanon put aside age-old feuds for the sake of its gas riches?

Lebanon's Minister of Energy and Water, Arthur Nazarian, has been eager to start development of the country's share of the Levant Basin in the East Mediterranean Sea, which is believed to hold 3,455bcm of gas reserves.

Extraction of the gas would relieve Lebanon's high demand on imports to meet its energy needs - in 2010 it imported 90% of its total primary energy demand. Offshore development would also provide new wealth for the developing country, where 28.6% of the population lives below the poverty line.

The Levant Basin offshore region, comprising of waters belonging to Turkey, Syria, Cyprus, Palestine, Israel and Egypt, however, is beset with geopolitical tensions, and Lebanon is in the thick of it. The country is embroiled in an embittered maritime border dispute, heightened by the potential of oil and gas, with its southern neighbour Israel, and under pressure from political instability and an influx of refugees from civil war in Syria, which surrounds its eastern and northern borders

The race is now on between Lebanon and Israel to develop the Levant Basin, but many experts are wondering whether the gas will, in the long run, be a curse or a blessing.

Momentum lost

The Lebanese government estimates there are potential natural gas reserves of 25 trillion cubic feet (Tcf) or more located in its offshore territory. So far, it has done surveys of 70% of offshore waters covering about 22,700 km². However, more exploration will have to be done before the level of reserves can be confirmed.

Since 2010 the government has gained some momentum in its work to exploit the reserves. In 2012 it created the Petroleum Administration to manage and monitor petroleum activities

and in December of the same year the first offshore licensing round was approved. In April 2013, after a prequalification phase, 46 companies were announced as pre-qualified. These included Shell, Statoil, Eni and Total.

This was followed by the first licensing round, which opened in May 2013. In part due to the ongoing political tensions, the deadline has been delayed several times, most recently in August 2014 for another six months.

The government has also failed to ratify two decrees that would outline the terms of the exploration and production agreements, such as the number of blocks to be auctioned off.

Lebanon is the only country in the region not to have exploited any of its offshore oil and gas.

Working with Israel

Lebanon's Parliament Speaker Nabih Berri summed up Lebanon's problems in regards to development of its offshore reserves when he said: "Oil exploration is the victim of the current political vacuum."

Maritime borders between Lebanon and Israel have never been agreed upon or delimited officially and are an ongoing source of tension. In 2010, maritime proclamations submitted to the UN made it clear the two countries both proclaimed an Economic Exclusive Zone (EEZ) of almost 850 km² concerned around the delimitation of the tripoint area between Lebanon, Cyprus and Israel. Lebanon also views an Israel-Cyprus agreement on the delimitation of their EEZs as an infringement upon part of its Southern EEZ.

Both Lebanon and Israel have indicated they would use force if necessary to protect their reserves. "A lot of people are saying the discovery of gas [in the Levant Basin] has been a curse," says Dr Rafael Leal-Arcas, reader in law at Queen Mary University of London. Leal-Arcas, along with his colleague Ehab Abu-Gosh, wrote a paper on the ongoing dispute called 'Gas and Oil Exploration in the Levant Basin: The case of Lebanon and Israel.'

"At the moment this seems to be the case," he adds. "But it could be a blessing, if they [Lebanon and Israel] find a way, through international cooperation, to respect each other."

One of the major problems is that Lebanon does not officially recognise Israel as a country in its own right. Leal-Arcas says one solution could be for Israel to join the Energy Charter Treaty, which promotes cooperation between countries for energy security. "It would be a step forward," he says.

"Think of the EU back in the 40s, countries were killing each other," he says. "However the genesis of this integration process was precisely energy. The European coal and steel community in 1951, with the treaty of Paris, said this is no longer French, no longer German, this is now European, and so they needed each other and this was a way to have peace. Why not do the same in the Middle East?"

Israel is very eager to develop its reserves and is currently pushing for a Cyprus-Greece gas pipeline to access the EU energy market so it will have access to a solid market for its gas. Currently, none of Israel's neighbours, due to ongoing tensions, will buy from it.

However, it's thought that such a pipeline could cause further conflict in the region. "The objective of energy security starts with a clear cut boundary of all the gas fields," says Omar Kettaneh, the Palestinian Authority's energy minister. "Otherwise instead of being a source of security the pipeline will be a source of conflict."

Attracting foreign investment

Conflict in Syria has also had a profound political impact on Lebanon, according to the UK Foreign Office, as local politicians have historically defined themselves to a large extent by their relationship with Damascus. Now a quarter of the Lebanese population are thought to be refugees from Syria - a huge strain on a country that is already struggling to keep the lights on.

In this respect, companies will likely find Israel more attractive than Lebanon, says Leal-Arcas. Although Israel has an ongoing conflict with Palestine, the government itself is strong. The country has more money, so can probably offer a better fiscal regime to companies, and has the backing of the US. "In Lebanon it would be more difficult," says Leal-Arcas. "Lebanon is in absolute chaos at the moment because they have a lot of problems."

However, he says politics shouldn't, and likely would not get in the way of companies entering the region if they deemed the investment sound enough: "Absolutely, business has nothing to do with politics in principle."

Infield Systems' published content analyst, Catarina Podevyn, says she expects some capital expenditure to take place offshore Lebanon in 2015 but that associated political risk remains a major obstacle to plans coming to fruition. Constant delays in finalising the licensing round and a failure to agree the terms under which the blocks will be awarded will also likely dent investor confidence further.

The London-based Economist Intelligence Unit told Lebanese newspaper The Daily Star that Lebanon would not be able to dictate strong commercial terms to international oil companies if the process is further delayed, adding that there is little clarity on contractual terms for exploring and developing the country's offshore reserves, as well as on the number of blocks that would be auctioned off.

Is diplomacy the only solution?

It appears that Lebanon still has a long way to go before it reaps the benefits of its reportedly vast offshore oil and gas riches that, according to Leal-Arcas and Abu-Gosh's report, in an optimistic scenario, could create energy independence for both Lebanon and Israel.

If both Israel and Lebanon are as keen as they proclaim to exploit these reserves, perhaps through business, the two countries may eventually be able to live in peace for mutual benefit.

Otherwise, the offshore reserves could forever remain an unfulfilled opportunity and source of tension, as Ehab Abu-Gosh and Leal-Arcas state in their report: "If political instability and tension...are not alleviated, and, more particularly, the maritime dispute is not resolved peacefully...the discovered energy reserves in the Levant Basin could comprise a great loss of economic and social development opportunities."

And this lost opportunity would most definitely be more keenly felt in Lebanon than its Israeli neighbour.

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