

Lebanon: What are the governance prospects for the petroleum sector?

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Middle East Strategic Perspectives is publishing a series of articles and presentations to shed light on the emerging Lebanese oil and gas sector. For our second edition, we have solicited Valérie Marcel, Associate Fellow at Chatham House, whose research projects focus on national oil companies and good governance in the petroleum sector, to contribute an article on the governance prospects of Lebanon's petroleum sector. The article, inspired from her latest paper "Prospects for good governance in Lebanon's nascent petroleum sector" (available at [Energy Strategy Reviews](#)), explains that a sound legal and institutional framework has been created, in part thanks to the help of foreign technical advisors. Future governance challenges, Marcel says, are expected in areas where Lebanon ranks poorly: control of corruption and rule of law.

What are the governance prospects for Lebanon's petroleum sector?

The Lebanese Ministry of Energy and Water and the Petroleum Administration launched Lebanon's First Offshore Licensing Round on May 2. Interest in exploration offshore Lebanon will likely be high, as demonstrated by the array of oil companies prequalifying. These include major oil companies such as Chevron, Exxon Mobil, Shell and Total, as well as established national oil companies, such as Rosneft, Petrobras and Petronas. But many obstacles remain. Caretaker Minister of Energy and Water Gebran Bassil conceded that the licensing process may be delayed. Cabinet approval is required for any agreement negotiated with the oil companies and Prime Minister-designate Tammam Salam is struggling to form a government in the current political context. Sunni and Shiite political blocs are sharply divided over a number of issues. Control over the Ministry of Energy and Water portfolio is at the heart of these debates.

Lebanon already lags behind Israel and Cyprus in developing its resources, to the dismay of the Lebanese public. From 2007 to 2012, Lebanon has indeed gradually established the institutional and legal framework for the governance of the petroleum sector. Throughout this process, political parties have struggled to increase their influence over the sector – for instance in the Council of Ministers' appointment of members of the regulatory body or the parliamentary approval of the agreement with Cyprus on maritime boundaries. There has been wide domestic criticism of the government's slow progress in developing Lebanon's petroleum resources, which is seen as symptomatic of the country's governance failure. While that may be true, it can also be argued that the gradual and slow emergence of the investment framework for the petroleum sector is a blessing in disguise.

First, it has resulted in a sound legal and institutional framework. This was accomplished thanks to Lebanon's relatively high state administrative capacity and support from foreign technical advisors. World Bank Governance Indicators rank Lebanon's civil service in the mid-range percentile globally in terms of perceptions of government effectiveness. And while policy makers

lacked petroleum sector expertise, they drew on the advice of experts from the Norwegian programme “Oil for Development” for guidance and capacity building.

Second, more time to build the framework has meant more time to legitimize it in the eyes of various political factions. The political process of building coalitions of support for each milestone is painstakingly slow, but it creates consensus around the policy outcome. In contrast, Iraq post-2003 shows us the negative consequences of proceeding to license without first securing legislative support from all regions and political blocs for a unified legal and institutional framework to oversee the sector. In Lebanon, the framework was established before licensing began.

In the future, it is likely that further critical decisions will be stalled in the regulatory body (the Petroleum Administration) and the Council of Ministers, which memberships reflect the religious segments of Lebanese society. However, the substance of the framework is not challenged so much as control over key posts at institutions overseeing the sector.

Finally, in light of the state’s weaknesses in the areas of control of corruption and rule of law, an accelerated path to the development of resources would have involved great governance risks. Corruption and patronage will likely be the Lebanese oil and gas sector’s critical weaknesses. Strengthening processes of accountability, improving the disclosure of information regarding the sector and building capacity in auditing can alleviate this risk. Civil society can push this agenda and play an important, positive role in improving accountability, notably by demanding the public disclosure of financial and operational data and holding decision makers to account.

Dr.
Associate Fellow, Chatham House

Valérie

Marcel

A longer version of this article is In Press at [Energy Strategy Reviews](#) (2013).