

Can Lebanon make progress on oil, gas exploration efforts?

Matt Nash

Wissam Zahabi is exhausted. It's 5 p.m. He arrived in Beirut an hour after sunrise from a fact-finding mission in Uganda and went straight to work. In the evening, he has a conference to attend. It's a busy day for a man who described himself and his colleagues as "idle."

His quote, however, needs to be understood in context. Zahabi is currently the president of Lebanon's Petroleum Administration, a government body established in 2012 to regulate the country's oil and gas sector. Back then, the pace of activity to create the sector was akin to lightning by Lebanese standards. A law passed in 2010 called for creating the LPA and naming its six board members. Two years later, the six were appointed. (By comparison, it took five years to appoint a board for the telecoms regulator and an electricity regulator called for in a 2002 law still exists only on paper.) The board should be busy watching over oil and gas companies searching for hydrocarbons in Lebanon's slice of the natural gas-rich eastern Mediterranean. It's not.

When Najib Mikati resigned in March 2013, his Cabinet had some unfinished business related to oil and gas, namely passing two crucial decrees: One carves Lebanon's offshore into blocks open for license, and another outlines technical details for how the round should proceed — the tender protocol — and includes a model contract to be signed between the state and the winning bidders. Despite the lack of a functioning government, in May 2013, then-caretaker Energy and Water Minister Gebran Bassil opened Lebanon's first offshore oil and gas licensing round anyway. Investors were lined up. Some of the industry's so-called supermajors such as Chevron, Total, ENI and Shell had prequalified in April 2013 to participate in the licensing round.

Bassil's move put Lebanon in an odd position. The licensing round was open, but without the decrees, companies could not submit offers. As the round's scheduled closure date drew nearer with the decrees still being ignored by the Cabinet, Bassil delayed it a few months. A few months later, he delayed again. And then again. Each time, he chose a specific date for the round

to close. When a new government came to power in 2014, Bassil's successor shifted tact. Closure of the licensing round is now slated for "a maximum period of six months from the date of the adoption of the two decrees." Since that 2014 decision, however, efforts to begin offshore exploration are moving at the more familiar pace of standard Lebanese bureaucracy.

Zahabi confirmed the decrees are ready for the Cabinet's signature but said he does not think they will be approved soon, listing a litany of crises requiring more urgent attention. He admits, "We've lost credibility, to be frank." But judging what impact this will have on companies' willingness to participate in the licensing round once it's truly open is a difficult question. Every now and again articles pop up in the local press claiming companies are losing interest in Lebanon or lamenting that Lebanon's neighbors are moving ahead as it languishes, but reading the minds of oil and gas companies that do not openly discuss their future investment plans is no easy task.

Anyone who tries to do research in Lebanon knows that recent, reliable data is nearly impossible to find. The one exception is the nascent oil and gas sector. Lebanon's offshore is almost entirely covered with both 2D and 3D seismic surveys, interpretations of which the LPA updates. A wealth of data is helpful for a country such as Lebanon where no offshore wells have ever been drilled. While seismic data does not give an exact road map of where to successfully drill, it significantly diminishes the risk of not finding oil. Once a company wins an offshore exploration license, it will usually spend the first few years searching for drilling targets. The amount of data Lebanon has could reduce the amount of time between contract signature and the first well. The LPA, one of the companies that conducted some of the seismic surveys, and a US government body that did its own survey back in 2010 all say that data looks good. And with all of the natural gas wells currently producing near Lebanon, the idea that the country's offshore is a potential cash cow is well established. Zahabi said companies bought data several years ago and does not point to new sales as an indicator of current interest. Instead, he points to Cyprus and Egypt.

Cyprus launched its third offshore licensing round in March, riding on hopes created by a very large natural gas discovery in Egyptian waters at the end of August 2015. Before the discovery in Egypt, however, Cyprus was in the press as a disappointment, not as a country trying to lure new investments. The island nation's only confirmed natural gas find — Aphrodite — turned out to

be smaller than expected, and in the 12 months prior to the find in Egyptian waters, all Cyprus had to show were two dry wells. Zahabi's basic message was that if Cyprus can hold a successful bid round, so can Lebanon. He isn't even deterred by a border dispute and, in fact, denies the existence of one.

Because they are neighbors, Lebanon and Israel should negotiate their own offshore borders. Because they are technically at war, they haven't. Israel's claim overlaps with Lebanon's, leaving an 860-square-kilometer (332-square-mile) triangle. Zahabi said Lebanon followed the UN's law of the sea to determine its offshore border, which it seems Israel de facto recognized when drawing the blocks it wanted to open in licensing rounds (the Israeli blocks match Lebanon's claim of where the border lies and are to the south of where Israel wants its border to end). The dispute is being mediated by the United States, and Zahabi said he hopes a resolution comes soon. Even without it, he said, Lebanon is free to explore where it chooses in its offshore waters. That is, as soon as the politicians decide to do so.