



## Lebanon offshore oil & gas update: pre-qualification process launched

**Author:** Posted by BI-ME staff

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LEBANON. Pre-Qualification Decree 9882 of 2013 issued on 21 February 2013 ushers the official opening of the Pre-Qualification Round for oil and gas companies wishing to participate in Lebanon's first offshore licensing round.

The Pre-Qualification process sets high standards for companies applying for pre-qualification status but also permits companies to pool resources for the purpose of pre-qualification.

**Deadline & Shortlisting:** The Pre-Qualification process is scheduled to close on 28 March 2013, with a 21 day period for the Lebanese Petroleum Administration Authority to examine the Pre-Qualification documents. A list of the Pre-Qualified companies is scheduled to be published by the Lebanese Petroleum Administration Authority on 18 April 2013 (subject to any extension of an additional fifteen (15) days by the Ministry of Energy and Water upon a recommendation of the Lebanese Petroleum Administration Authority).

**Criteria:** The Pre-Qualification (PQ) Criteria are defined on the basis of (i) Legal, (ii) Financial, (iii) Technical and (iv) Quality, Health, Safety and Environment (QHSE) requirements and companies may either pre-qualify as an Operator or as a Non-Operator.

**PQ Status:** Companies are required to elect whether to pre-qualify as either an "operator" or a "non-operator".

**Legal Criteria:** Applicant companies must provide an official copy of their constituent documents and this will include a Certificate of Incorporation, Memorandum of Association and Articles of Incorporation. Documents are required to be legalised and certain documents must also be translated into Arabic. Companies must also declare the address of any partner or shareholder who, directly or indirectly, holds 20% or more of the voting shares. If the company is not the ultimate parent company, then it must provide an organisation chart illustrating the chain of ownership.

**Financial Criteria:** Companies seeking to pre-qualify as an "operator" are required to hold total assets of US\$10 billion or more. Companies seeking pre-qualification as a "non-operator" should have total assets of US\$500 million or more.

As part of the financial criteria, financial information such as audited consolidated financial statements for the company for the last three (3) years including the balance sheet, income statement and cash flow statement is also required. Present and historical (prior three (3) years) credit ratings of the company (or its parent company) long term unsecured debt from Standard & Poor's Rating Services, Moody's Investor Services Inc or Fitch Ratings should be submitted as well.

Companies (including all companies part of a consortium) are required to file a description of their material lines of credit, credit agreements, publicly traded debt securities, off balance sheet liabilities and guarantees of third party obligations.

**Technical Criteria:** Companies seeking pre-qualification as an "operator" are to have already operated at least one petroleum development in water depths in excess of five hundred (500) metres as well as having experience as an operator in drilling more than five hundred (500) million cubic feet of gas per day. Companies seeking pre-qualification as a "non-operator", must have established petroleum production.

**QHSE Criteria:** Companies applying to pre-qualify as either an "operator" or a "non-operator" must submit evidence of proper operational procedures and sensitivity related to issues surrounding Quality, Health, Safety and the Environment. Specifically, all companies are required to submit QHSE policy statement(s) and evidence of established and implemented QHSE Management System(s).

Furthermore, the QHSE criteria requires companies to provide QHSE certification(s) according to best international industry practice with copies of certificates approved by the awarding official entities. In addition, applicants wishing to pre-qualify as an "operator"™ must also submit a copy of Corporate Social Responsibility reports or initiatives for the past three (3) years, evidence as an "operator"™ in environmentally sensitive areas and QHSE record of material events for the previous three (3) years including oil spills, site fatalities and injuries, major fires and explosions, mechanical/structural failures, emissions and waste and main remedial efforts.

**Pooling Resources:** Pre-Qualification Decree 9882 of 2013 (as amended by a recent correction in the Official Gazette Issue 9 dated 28/2/2013) provides that a Right Holder may be one company or a group of companies, provided at least one of which satisfies the required criteria for pre-qualification. Companies may therefore pool their resources for the purpose of pre-qualification by establishing an incorporated or unincorporated joint venture (subject to certain additional conditions) and submitting a joint application for pre-qualification.

Potential entrants into this exciting new oil and gas opportunity would benefit from obtaining expert guidance on the complex legal environment in Lebanon, to identify relevant legal risks and how they may best be mitigated.

This should be done prior to committing to this market. Clyde & Co's™ leading oil and gas team has worked extensively in frontier markets and challenging jurisdictions and, being the largest international law firm based in the Middle East, is well placed, in tandem with Kabalan Law's™ expertise in Lebanon and the region, to advise private sector companies as well as governments, agencies and institutions looking to venture into this exciting new oil and gas province.

If you would like further information on any issue raised in this update please contact George Booth ([george.booth@clydeco.ae](mailto:george.booth@clydeco.ae)) or Niazi Kabalan ([niazi@kabalalanlaw.com](mailto:niazi@kabalalanlaw.com)).

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