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LEBANON

Lebanese urged to insulate gas exploration plans

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Lebanon's leaders must make sure the country's burgeoning oil and gas business doesn't deepen domestic political tensions, executives and analysts said.

Lebanon is preparing to sell exploration rights for the first time in early 2013 amid concerns that its warlords and political groups could descend into sectarian strife as they vie for a piece of offshore wealth. These groups fought a 15-year civil war and remain at odds over two decades later. Royal Dutch Shell Plc, Cairn Energy Plc and Cove Energy Plc are among firms expressing interest in bidding for a license.

"It could be a curse or a blessing for Lebanon given the sectarian divides that exist," Sven Behrendt, managing director of political risk-management company GeoEconomica, said in an interview at the two-day Lebanon International Oil and Gas Summit in Beirut. Carole Nakhle, an energy economist and director of Crystal Energy Ltd., said: "You are on your way to hell or heaven, so proceed with caution."

Bickering between Lebanon's two main rival political groups, divided along the lines of opponents and supporters of Syrian President Bashar Assad, led to delays in passing an oil and gas law and appointing the Petroleum Administration board that will oversee the country's energy industry.

Spats over natural resources aren't uncommon, said Angelina Eichhorst, head of the European Union delegation to Lebanon. "Too often the explorations have brought conflict, corruption and environmental degradation," she said. "Surely the Lebanese government will take necessary steps to avoid this."

Lebanon began preparing for the oil-licensing round and the exploration amid a power struggle between the pro-Assad March 8 coalition and the anti-Assad March 14 group. It took months of negotiation before the oil and gas law was passed in 2010 and even more time was needed to appoint the petroleum board as the two groups sought to wrest favorable conditions. The six board members, chosen from Lebanon's six most prominent religious sects, were named last month.

Taisir Anbar, business development manager at Shell, said Europe's largest oil producer would consider exploring offshore Lebanon though "it depends on the bidding conditions." It will take three to five years for the first oil or gas to flow after the exploratory drilling starts, said Bill Farren-Price, chief executive officer of U.K.-based Petroleum Policy Intelligence.

Estimates of the potential value of Lebanon's reserves are hard to make because exploration hasn't begun. Neil Hodgson, new ventures manager at Spectrum SA, said drilling in Lebanon may turn up gas comparable to Israel's Tamar field, which has reserves of 274 billion cubic meters.

Noble Energy Inc. and its Israeli partners developing Tamar have signed contracts exceeding \$32 billion to supply Israeli companies with gas, committing as much as 133 billion cubic meters.

Proceeding with exploration may spark territorial disputes with Israel, which doesn't have a defined maritime border with Lebanon. Lebanon has said some Israeli fields may stretch into its waters and has asked the United Nations to intervene to prevent a conflict over exploration areas.

The Iran-backed Lebanese militant group Hezbollah, which fought a war with Israel in 2006 and is considered a terrorist organization by the U.S., has vowed to protect the nation's offshore resources. Uzi Landau, Israel's then-minister of national infrastructures, said in June 2010 his government was willing to use force to protect its undersea gas finds.

The disputed area by Lebanon and Israel is 854 square kilometers, said Mohammad Alem, managing partner of Alem & Associates.

Petroleum extraction in Lebanon will be governed by production-sharing agreements, said Hayat Nader, head of the Finance Ministry's government commission. In addition to its share of production, the government will levy a tax of 23.5 percent on the earnings made by the companies from the oil or gas they produce, she said.

To protect the exploration process from internal disputes, the government should avoid the "Lebanization" of the management process where "management is conducted not according to best practices and rules of governance, but according to the lord-of-war dynamics," said Sami Nader, a professor of international relations at Beirut's St. Joseph University.

Lebanon's warlords and political groups have been "forces of instability who didn't put the country on the right track," Nader said. "If you don't have the right processes and framework in place, that means you will squander this wealth and this money will feed these forces of instability."

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