

The gas of Lebanon's dreams

by **Carlo Giorgi** | December 10, 2012

(Milan) – The economic future of Lebanon is all at sea, as the participants at the Lebanon International Oil & Gas Summit realized – metaphors apart – held in Beirut on 3rd and 4th December. Salah Khayat, Managing Director of *Petroleb*, the country's largest upstream oil and gas company, in the two days, gave some explosive news to attendees: "Lebanon has resources of gas and oil valued at tens of billions of dollars when extracted over the next forty years." These resources are even greater than those found by Israel off its coastline in recent years, Khayat added with satisfaction.

Thanks to these submarine deposits of natural gas, Lebanon could become a stronger and more independent country, able to export raw materials and increase its weight in the international context. This change could influence the balances and relations between the countries in the region, but is considered with attention – and not without a certain fear – by the world of finance and industry. Sven Behrendt, in charge of the political risks department of the economic consultancy firm *GeoEconomica*, in his contribution to the summit, dampened the enthusiasm of the participants. "For Lebanon, it could be a risk or a blessing, seeing the hatred and sectarian divisions that still exist here." "You may be on the road to hell or paradise," said Carole Nakhle, director of *Crystal Energy Ltd*, being even more cautionary. "So, proceed with great care..." This scepticism does not appear to be without grounds. The antagonism between the two political fields in which Lebanon is split (the pro-Syrian 8th March Coalition currently in power and the opposition of the 14th March Coalition, hostile to the regime of Damascus) is believed to already have caused a great delay in recent years, both in defining the law authorizing the search for gas and oil fields and in forming the commission for the oil administration, which supervises the national energy industry. It took months for the law to be approved in 2010 whilst it was not until last month, when a compromise was reached by the two political parties, that the six members of the Commission, chosen to represent the main religious factions in Lebanon, were named. Now that the government is on the point of selling the rights to explore the fields that have recently been discovered (the companies interested include *Dutch Shell*, *Cairn Energy* and *Cover Energy*), the fear of many observers is that the two political parties will once again clash, in the attempt to get their hands on part of the great wealth from the exploitation of the fields.

On the other hand, there are also risks from the point of view of foreign policy: Israel and Lebanon have never reached an agreement that accurately defines the borders of their respective territorial waters and there is still a wedge of sea of 850 square kilometres that is contended between the two countries, formally still at war (the last war was in the summer of 2006). With things standing this way between Israel and Lebanon, the oil companies wonder which of the two states is entitled to sovereignty over the fields. *Hezbollah*, the Lebanese Shiite movement which has an army of its own and an endless supply of weapons, has already stated that it wants to "protect" the national "submarine" resources; in 2010, the then Israeli Minister of Infrastructures, Uzi Landau, already echoed them, saying that his government would go as far as using force to protect its natural reserves. During the summit in Beirut, a glimmer of

light came from one of the participants: Solon Kassinis, director of the Department for Energy of Cyprus. Kassinis told *Associated Press* that the government of Nicosia was willing to mediate between the two contenders.

Paul Salem, director of the *Carnegie Middle East Center*, speaking at the Summit, said that the political risks of exploiting the deposits would be high. The continuing conflicts between Turkey and Cyprus, Israel and Lebanon, the war in Syria and the tensions in the area must all be taken into consideration. The Syrian civil war, Salem said, has already hindered the project of Lebanon to link up to the Arab gas pipeline, which at present unites Egypt and Jordan but, according to Salem, natural gas could also be a unique opportunity for peace: it could be used to power the desalination plants, helping to dispel the spectre of a regional war over the water resources. The wealth from the sale of the gas could be used to fight unemployment and increase the GDP. One of the measures to limit political risks could be to attract international investors, including the oil companies of Russia, Qatar, China, Turkey and Iran, “when possible.”

In any case, it will take a long time to turn Lebanon into a hydrocarbon-producing country: “Although some wells in the open sea could already be operative within twenty months” said Naji Abi-Aad, in charge of the operations department of *Petroleb*, “it will take at least eight years to be able to produce natural gas ready for export.” The first step that the Land of Cedars will have to take is to transform its infrastructures, changing the power of its electric power plants from diesel oil to natural gas, then a coastal pipeline will have to be built, which is still in the planning stage, and lastly, purchasing countries will have to be found.

In the meanwhile, Israel, the natural antagonist of Lebanon in the region, has not wasted any time; it has already intensively explored its territorial waters and two of the fields discovered will start production in the near future. The experts foresee that the reserves that have come to light will satisfy Israel’s domestic energy needs for the next twenty years.

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