

LEBANON'S NATURAL GAS SECTOR: AN INTERVIEW WITH DR CAROLE NAKHLE

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Natural Gas Europe was pleased to have the opportunity to discuss developments in [Lebanon's](#) hydrocarbon sector with Dr Carole Nakhle. Dr. Nakle is an Energy Economist at the Surrey Energy Economics Centre in the UK specialising in international petroleum fiscal regimes, world oil and gas market developments, and energy policy.

Can you give me an estimate of the overall resources offshore Lebanon?

We don't have a specific figure yet. First numbers range between 12 and 25 tcf. We have to bare in mind these are very uncertain figures. When we talk about resources, we don't know how much will be technically and more importantly economically recoverable. It all depends on the costs and the prices that investors will get. The Aphrodite field in [Cyprus](#) for example was discovered in 2011 but to date it has not been declared commercial yet. As for the Lebanon, we should wait for exploration to start, discoveries to be made then assessed first before putting a value on the gas reserves.

When do you envisage that Lebanon will start extracting and making use of the gas?

The timeline remains very uncertain. I came across several studies forecasting that Lebanon will not start producing gas before 2020 being hindered by technical, political and legal challenges. If the licensing round goes according to plan, we can expect the first exploration contract to be signed in early 2014. Even then, it can take an additional year or two for companies to start exploration, and any potential discovery will need to be appraised. My personal estimation is that it can easily take between 5-7 years before production comes upstream.

Lebanon has lagged behind its neighbors in the search for hydrocarbons beneath the [Eastern Mediterranean's](#) seabed. Will the fact that Israel and Cyprus are ahead in the race affect Lebanon's plans?

I don't think it is fair to compare Lebanon's energy situation with [Israel](#). Israel has been a gas producer for many years, hence the much needed infrastructure for the domestic exploitation of natural gas is already in place. Also, gas plays an important role in Israel's energy mix (about 40 percent of electricity in Israel has been generated from natural gas in recent years, and the rate of natural gas consumption is expected to rise to 50 percent by 2015). In contrast, the use of natural gas in Cyprus and Lebanon remains negligible. Cyprus

currently gets most of its energy from burning oil. As for Lebanon, the use of natural gas is close to nil. In the event the three countries succeed in effectively developing their hydrocarbons, they would face regional competition especially if they target the same export markets. The European market seems to be the most obvious destination given its geographical proximity. The LNG option could give the Eastern Mediterranean countries access to the Asian market where demand is still growing and prices are higher. However, numerous factors could stand in the way: the fact that China is sitting on huge reserves of unconventional gas, the Russia-China pipeline, and the growing supply of LNG from established producers like Australia and new players like the US and potentially East Africa.

Could drilling offshore Lebanon be delayed in exploration blocs in the southern waters by the maritime border dispute between Lebanon and Israel?

Yes, if we are talking about the blocs falling within the disputed zone. If those blocs are excluded from the 1st Licensing round, the progress is unlikely to be affected (unless wider regional tensions escalate). As a way of example, [Russia](#) and [Norway](#) were able to go ahead with their energy plans in uncontested areas despite a 30 years unresolved maritime border dispute in the Barents Sea.

Will Lebanon's political turmoil slow its oil and gas exploration plan?

Without a doubt. Take a look at the delay in selecting the board members of the Petroleum Administration, because of internal **political disputes**. The licensing round too was postponed on several occasions. Currently, we have a caretaker government.

ExxonMobil, Chevron, and the National Iranian Drilling Corp are among 52 international energy companies who submitted applications to participate in Lebanon's first offshore gas licensing round despite its domestic upheaval and the civil war in Syria. 46 companies were successful. How do you explain the high level of interest? Does it suggest trust in Lebanon, in Lebanon's administration of its oil and gas resources or a trust in the quantities? Or all the above?

It is more than trust. O&G companies operate on a long term basis. They are used to taking risks but at the end it is a question of weighing risks and rewards. These international companies are accustomed to working in countries where, for instance, the risk of their assets being nationalised by volatile governments is high or where various groups and tribes act against them. The oil majors operate in what we can describe as risky areas such as in Iraq, Nigeria, Venezuela and even Iran. It all comes down to a simple equation of risk/reward. One additional aspect that can play a role in Lebanon, at least in the short/medium term, is the fact that companies will carry out their activities offshore, and in this sense onshore problems will seem distant.

What if the political stalemate dragged on for six months with no new government formed?

That is a question I would love to know the answer to especially in the light of various assurances we continue to hear from Lebanon that the first offshore licensing round will take place according to schedule.