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**MATT NASH**

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Will politics burst Lebanon's gas bubble?



For someone as **intimately familiar** with how arduous forming a cabinet in Lebanon can be, Gebran Bassil is optimistic. By May 2, a Lebanese government has to make two decisions or the auctioning off of potential undersea riches will have to be delayed.

Last week, Lebanon announced that 52 companies had pre-qualified to bid on contracts to explore for and extract the natural gas and oil believed to be buried off the coast. The final list of qualified companies will be announced on April 18, and the bidding begins on May 2.

However, if there is still no government by then, the process – in theory – cannot move forward. A government still has to approve the dividing up of Lebanon's chunk of the resource-rich eastern Mediterranean into blocks and a model production sharing agreement, which is the

general outline of the contract companies will compete over to win.

Bassil, speaking at a press conference last week, was insistent that the Ministry of Energy – which he heads in a caretaker capacity until a new cabinet is formed – will continue working despite the power vacuum. When pressed by NOW about what will happen if the two needed decisions are not made, Bassil refused to entertain the idea.

“There will be a government,” he said.

If there's not, however, the process of companies bidding on contracts could be delayed. That said, according to [Middle East Strategic Perspectives](#) – a consultancy that keeps a blog on updates in the Lebanese oil and gas sector – “there was a precedent in the past (1969) when a caretaker government did indeed have to adopt decrees, given how long it took to form a new government (seven months). It is unlikely the current caretaker government will invoke this precedent unless the appointment of a new government is repeatedly delayed.”

Any holdup would, obviously, delay the process of looking for, finding, and potentially extracting offshore oil and gas, but Mona Sukkarieh, from MESP, told NOW via email that a delay would likely not make foreign companies rethink their decision to invest in Lebanon.

“We should keep in mind that these companies are aware of the country risk, to a certain extent,” Sukkarieh said. “If indeed the bidding round is delayed, it will hardly be an exception in the business.”

Sukkarieh noted that oil and gas companies think long-term and have likely already made a strategic decision to invest in Lebanon, knowledgeable of the country's idiosyncrasies. However, she added, “Of course, this does not mean that the government should keep testing their patience.”

The contract negotiation process is fundamentally important for the future of Lebanon's oil and gas sector. Bassil wants to use a production sharing agreement as a template or model for companies to bid on. Once all the qualified companies are announced (April 16), they must – by law – form themselves into groups of three or more (the 2010 oil and gas law says only a consortium of companies can win a contract).

On May 2, the bidding will begin. It will consist of companies modifying the model contract based on which items in the contract Lebanon deems negotiable (possibilities include: the amount they will pay Lebanon if and when they begin selling gas or oil from Lebanon's waters, the amount of free gas or oil they will give Lebanon for domestic use, a nice signing bonus for

Lebanon, etc.). This is expected to take almost a year. Bassil has previously said contracts should be fully negotiated and signed by February 2014.

The world over, this negotiation process is done in secret. The same will be true for Lebanon. However, an official with the Ministry of Energy – who was allowed to speak with NOW only on the condition of anonymity – said that the contracts will be public documents once signed.

The official also said that the Petroleum Administration – which governs the oil and gas sector – is considering whether or not to sign the **Extractive Industries Transparency Initiative**, a global effort to push governments and oil and gas companies to publish all their earnings from fossil fuel sales.

“I cannot promise that this will be signed because it [would need government approval], but we are interested in the topic. We want to have this commitment to transparency and all that it takes, but we are working on it. I’m not sure when Lebanon can join this agreement or not,” the official said.

The official added that a Strategic Environmental Assessment for the oil and gas sector that was conducted last year will be made public on May 1, when the Petroleum Administration’s new website is launched.

On whether or not local “carried partners” – which, in some cases, can simply be shell companies owned by politicians looking for a slice of the pie – will be allowed to join a consortium, the official said they would, but hinted that there will be no shell companies.

“On April 18, if any company that is not qualified is [still recognized by the Petroleum Administration as qualified], you can say, ‘Well, we have a problem.’”

The official noted that all qualified companies will be publically announced as they were at the end of the pre-qualification round on March 28.

“Even you can do the evaluation,” the official said.

“I will,” NOW replied.

“Yeah, and I’m very happy about that.”