

# **LEBANON'S EMERGING OIL & GAS SECTOR: A DISCUSSION WITH ENERGY MINISTER ARTHUR NAZARIAN**

Energy Minister Arthur Nazarian issued a decision on August 8, 2014, postponing the deadline to submit bids in Lebanon's first licensing round from August 14, 2014, to a maximum period of six months from the date of the adoption of the two missing decrees related to block delineation, and the tender protocol and model exploration and production agreement (EPA) by the government. Frequent power vacuums within the executive branch (the country was run by a caretaker cabinet with limited powers for almost a year, from March 2013 until February 2014, and has been without a President since May 25, 2014) made it difficult to approve the two decrees. Yet, Lebanon's seemingly high country risk at this point in time does not eclipse its substantial energy potential.

In a long discussion with Middle East Strategic Perspectives, **Energy Minister Arthur Nazarian** provides an update of the prevailing situation and presents the latest developments related to the sector, including progress made in the FSRU and LNG import tenders. Nazarian outlines the advantages Lebanon offers to foreign investors and presents his interpretation of Lebanon's position in the Eastern Mediterranean. As Energy Minister, and industrialist, he lists the major effects the exploitation of offshore resources could have on the economy and calls on the local business community to engage in the development of the petroleum sector by building its capabilities and seizing the opportunities presented by the EPA, which requires right holders to give preference to local goods and services, even if the offer is slightly more expensive. Throughout the interview, Nazarian expresses an optimistic, yet measured tone, that is appreciated in the current circumstances.

*Lebanon just announced yet another postponement of its first licensing round. Do you think this and the prevailing political instability could affect foreign companies' interest in getting involved in the exploitation of offshore resources?*

International Oil and Gas companies expressed their interest in investing in the Lebanese offshore through the pre-qualification process conducted in 2013. The decision for IOCs to invest in a country is based on several factors that they assess thoroughly both at the level of the host country as well as the IOC. At the country level, these factors include but are not limited to: the hydrocarbons' prospectivity, geological assessments, technical capacity and challenges, petroleum regulations, fiscal systems, national laws and regulations related to foreign investments, governance of the petroleum sector and its management, financial and judicial reliability and stability, political context, and national and regional security.

**Lebanon scored well on all of the factors listed above – set aside security – except for the ability to abide by the timeframe for the completion of the first licensing round** approved by the Council of Ministers. This affects the overall planning and investment programming of the IOCs. Noting that exploration opportunities are available at the global and regional levels with high competition among countries as well as between IOCs.

IOCs that have high interest in investing in the Eastern Mediterranean and have long term plans to tap on the gas prospectives, will still be interested to invest in Lebanon. However, **the timing and the competing investment opportunities, along with the prevailing political context will determine the final decision of IOCs.**

IOCs conducted their own risk assessment with regards to Lebanon's political context and security status, based on which they have submitted their pre-qualification application, bought and interpreted seismic surveys, and are preparing their bids. This shows the interest of IOCs to operate in Lebanon, noting that they very often operate in countries with high political and security uncertainties.

However, given this context, IOCs will factor-in these risks in their bids to compensate for any potential losses. Accordingly, **the Government needs to work on de-risking the factors affecting the investment decisions for IOCs**, to ensure that we receive the optimal bids for the first licensing round.

The Ministry and the LPA have taken all these factors into consideration, thus creating a petroleum regulatory system along with a licensing strategy that would ensure obtaining the best offers at this period of time.

***Lebanon is lagging behind some of its neighbors. What advantages could it offer to investors to differentiate itself and promote itself as a privileged destination for foreign investments?***

It is true that Lebanon is lagging behind its neighbors with regards to exploration and production activities, however Lebanon may compensate for this through two main issues. The first is the **extensive and high quality 2D and 3D seismic surveys covering 100 and 70% of the Lebanese offshore** respectively. This would save at least two years of the exploration phase. Second, the **relatively easy access for exporting Lebanese gas** to the region through the Arab Gas Pipeline, to Europe through onshore or offshore pipelines, and to the international market through LNG plants that can be built in Lebanon, jointly with other countries in the region, or by using existing plants in Egypt for example. This provides a good added value for Lebanon compared to countries in the region.

Offshore exploration, as well as developing the needed infrastructure for gas processing and transportation are capital intensive. Lebanon has a strong banking sector and private sector companies that have enough capital and are willing to invest in the petroleum sector. This will encourage IOCs to invest in a country where local capital exists unlike the neighboring countries.

In addition, Lebanon can offer qualified workforce and human resources that are well positioned to acquire quickly the specific skills needed to actively engage in developing the petroleum sector. This will also be an attractive factor for IOCs, particularly in cases of critical security status where IOCs will face difficulties in mobilizing foreign workforce.

***The time factor is very important in the race to exploit resources. Other countries in the region are already either exploring for or exploiting their resources (Israel, Cyprus, but also Greece, Croatia, Montenegro etc). Could this have consequences for a country that aspires to become a gas producer and perhaps even exporter?***

Time is a crucial factor for obtaining the optimal conditions for gas exploration and production. As a new gas exporter, the Levant basin is attracting a lot of global interest from IOCs as well as from countries, particularly the European Union whose new energy security strategy focuses on diversification of gas imports. The recent energy conference and Ministerial meeting organized by the EC and hosted by Malta and Cyprus, confirmed the importance of the Eastern Mediterranean region, including Lebanon, as a strategic partner to the European Union that may help achieve the diversification objective set out in the energy strategy. In addition, gas demand

in countries in the region will continuously increase due to the high population growth, growing consumption patterns, and environmental policies. Moreover, discussions have been initiated with regards to creating a regional gas pricing hub.

As mentioned earlier, Lebanon's strategic position and prospective hydrocarbons production potential, may allow it to play a role in supplying a portion of the regional demand, but more importantly contribute to the diversification of gas supplies. Depending on the volume of gas that may be produced, Lebanon may be able to access the global market through LNG. This will open new venues and market options.

*Could you update us on the FSRU and LNG import tenders?*

Ministry of Energy and Water have completed, with the help of the international consultant Poten & Partners, the evaluation of technical and financial offers of the FSRU tender where we had fierce competition between three international companies that led to very good prices w.r.t FSRU's market price. The final report has concluded a preferred bidder and was sent on May 19<sup>th</sup> 2014 to the Lebanese Cabinet for their review and approval.

In addition to that, the ministry has been approached by a good number of LNG suppliers who showed interest in the EOI that was launched in December 2013, and now we are in the process of initiating the negotiation with them.

Both the FSRU and the LNG supply will commence as soon as the cabinet give the green light on the whole process.

*As a minister, and also an industrialist, what are the major effects you would expect the exploitation of offshore resources to have on the economy?*

The exploration and exploitation of the offshore hydrocarbon resources will have major beneficial effects on the national economy, **directly through jobs creation and direct investments that will be committed by the IOCs or indirectly through the accessorial businesses and economy that will be developed and its repercussions on the governmental budgets and taxation policies...**

Namely:

- The creation of thousands of jobs directly in the sector: i.e. the operator oil companies that will be awarded the licenses.
- The creation of an even greater number of jobs in the service companies, especially that the ministry and the PA have made a special emphasis in the EPA on the local component where as a minimum of 80% of the hired human resources, should be Lebanese and a 5 and 10% advantage have been provided for the Lebanese suppliers and service sub-contractors.
- Lebanese industrialists will however benefit from a cheap energy bill which has been so far one of the majors impediments to competitiveness on the international markets for Lebanese products.
- The revenues of the petroleum activities that would be injected directly in the budget will inevitably decrease the high custom rates on raw materials that have also been a great impediment to Lebanese products competitiveness...

***How do you think the business community and the private sector should prepare for the possible development of an oil and gas sector?***

The Lebanese business community is very dynamic and active. Some already started exploring opportunities to work in the oil and gas sector in Lebanon. **Our aim is to maximize the benefits of this sector for the national economy and the people of Lebanon.** The investments to be undertaken during the exploration and development phases are vital for engaging the Lebanese workforce and service companies. For that, the Ministry and the LPA have put in place very strong regulations for local content, where IOCs are required to employ up to 80% of Lebanese nationals in their workforce. This target is to be met gradually. In addition, goods manufactured in Lebanon will have a 5% cost incentive, and 10% for services provided by Lebanese companies.

The Lebanese private sector is encouraged to engage in the development of the petroleum sector through first understanding the value chain including all the services and goods that will be required by IOCs during the exploration, development and production phases. This needs to be followed by building their own capabilities to be able to provide the required services and goods within the required quality standards and competitive prices.

The engagement of the local business sector is vital in order to ensure that foreign investment is benefiting the local economy.