

ADDRESSING TRANSPARENCY IN LEBANON'S OIL AND GAS SECTOR

The oil and gas file might be on hold at the political level and suffering from the prevailing deadlock, but civil society is booming with initiatives addressing the possible development of an oil and gas industry. Governance is acknowledged as one of the major challenges facing the nascent sector, and civil society is multiplying efforts focusing on promoting transparency.

While NGOs' impact on public life and institutional reform is relatively limited in Lebanon, we hope the fact civil society has been preparing early on in the process, in the pre-licensing phase, would give it enough lead to make a difference, in a country suffering from deficiency in transparency at all levels, including contracting. Middle East Strategic Perspectives asked Jeremy Arbid, journalist at Executive Magazine and co-founder of the Lebanese Oil & Gas Initiative, to evaluate the transparency of the process so far and the role of civil society in promoting good governance.

How do you assess the transparency of the process so far?

The LPA has engaged with the public, media and civil society not typical of Lebanon's other government offices. Nevertheless there have been transparency issues but we do recognize decision-making does not start nor stop at the door of the LPA. It is a completely new sector with policy being created in real time, but other governmental institutions have either mostly ignored its role of informing the public, like the ministry of energy, or abdicated its role, like the parliament.

A new oil and gas industry cannot slip into the same routine as many other aspects of the Lebanese economy. Several concerns come to mind that demonstrate the importance of building trust amongst stakeholders — the public, civil society and media, companies, and the government.

100 percent of Lebanon's offshore area has been covered by 2D seismic surveying and 70 percent by 3D. The surveying companies have sold this data to exploratory companies and the

last time we heard, in 2013, the government's share in revenues from data sales was around \$35 million. True, it is but a small amount in the grand scheme, but this money represents the first revenues from Lebanon's oil and gas and already there are questions. The revenues were to be sent to the Treasury, but since the government has no budget we've heard that it has been placed in temporary accounts. Has the amount grown since 2013 — have sales continued and has the government continued to receive a percentage — if so, what is the total now; what will this money be used for; and, most important, is the money still there?

If the money is there then documenting its existence — because verbal confirmation is not sufficient — will go a long way toward building trust and confidence in the government's ability to manage this sector. If the money is there, prove it.

A second issue concerns a loophole in the first licensing round that must be closed in subsequent rounds. Companies allowed to participate in bidding for exploration and production contracts without any financial or experience required (as long as their partners have it) has resulted in a business model built around connections to influential Lebanese and, in another case, hiding the identity of company owners while doing so.

This fosters an unhealthy environment encouraging the consolidation of potential resources and revenues in the hands of a few and, possibly, the ability to influence subcontracting for services, reinforces the prerequisite of *wasta* to gain employment, bribery, and other forms of corruption. On a positive note the government released, after media pressure, the strategic environmental assessment — an important policy planning tool guiding everything from offshore exploration to building onshore infrastructure — such as a pipeline that might cross through populated areas — considering environmental and socio-cultural concerns.

How do you evaluate the role or contribution of public institutions, such as the Petroleum Administration and the Petroleum Directorate?

The delays in the licensing round have been a blessing for civil society and for LOGI to catch up somewhat to other stakeholders. But it has also been an opportunity for government institutions to up their capabilities by hiring or reactivating once defunct departments.

The LPA has been able to bring on staff, but since it is mainly an advisory body to the minister of energy delays have left it largely twiddling its thumbs wondering what to do. This has not

been wasted time; its board members have drafted much of the legislation needed for both offshore and onshore exploration, while also reaching out to a wide audience — municipalities, youth organizations, the business community, and civil society — in conference rooms and university auditoriums throughout Lebanon. But this industry requires an independent regulator and the LPA should be evolved toward that role.

It is a positive measure to activate the Petroleum Directorate, but we haven't seen much public activity. We know that Aurore Feghali was appointed as director in May 2014. She doesn't have a petroleum background but has related management experience — do individuals with industry experience surround her? What exactly is the role of this directorate; the only rumor of its work is that Feghali didn't approve the LPA's budget until late 2014 – why?

In the absence of a law on access to information what is the maximum transparency we could hope for?

It's true the absence of an access to information law is a hindrance, but if the media, civil society, or constituency does not know the right questions to ask then having such a law would be of little value. Our goal at LOGI is ambitious, but it is also simple: we want to raise public awareness directly, with civil society, and via the media so that citizens and organizations can closely follow and understand industry development from exploration to export. A foundation of knowledge allows the public the ability to confidently inquire its representatives about industry progress and express concerns — knowing who, and what to ask about, will go a long way toward government accountability and improving public confidence in its ability to manage this sector.

Given the context (political deadlock, country risk, and market conditions) do you expect international companies to be interested in Lebanon? What sort of incentives could the authorities offer to lure investors?

One important indicator of companies' interest will be their presence at Lebanon's oil and gas commercial conferences held toward the end of 2015 — last year those events were minimized or canceled.

A stable investment environment would go a long way toward renewing interest — you once told me that is what companies expect in legal frameworks. It's the same for political stability

that is not something LOGI can address alone, but is a key message to Lebanon's politicians and the international community. Stability in policymaking is also important — for example, uncertainties in Israel's regulatory framework drove out Woodside and is now testing the patience of Noble.

We need to reduce all the uncertainties that we can for companies to invest in Lebanon — this applies to exploring for oil and gas but also to every economic sector. Some of this will take time but other issues such as resolving the maritime border dispute and passing the needed decrees must be prioritized by the parliament — a key institution LOGI will lobby.

On one hand the delays are negative because it has impacted Lebanon's negotiating ability with the companies for biddable items in the exploration and production agreement. But what lay beneath Lebanese waters today will be there tomorrow and if exploratory companies find the surveying data as promising as indicated they will come and drill — petroleum resources are their feedstock.

The World Bank, the IEA, and many consulting firms have forecasted a decline in gas prices in the coming decade — this was before the current market conditions — but companies were still lining up to prequalify in Lebanon's licensing round. Investing in this infrastructure, particularly in deep offshore waters like Lebanon's, is a long-term strategic decision that companies will be making as they receive results from exploratory drilling in offshore Lebanon — the decrees need to be passed first.

One incentive LOGI offers to the companies, the government, and other civil society organizations is a commitment to institutionalizing transparency and stability in decision-making. The trend globally sees international companies engaging in transparent measures in foreign jurisdictions where they operate because of domestic regulations and international pressure. Civil society now is a partner in the global industry and LOGI will be at the forefront of this role in Lebanon.

At the political level the oil and gas file is on hold, while civil society (think tanks, NGOs, universities) is buzzing with initiatives. How do you explain the contradiction; does it reflect inflated expectations or does it allow civil society to be better prepared?

The activeness of civil society is not a negative development. Discovering petroleum resources could be a game changer for Lebanon and civil society has an important role to play to make the

sector a sustainable one. People are excited about the prospects that potential resources might mean for Lebanon – for example, the dollar amounts Lebanon will receive from selling gas and the number and quality of jobs created. The LPA has been quite good in managing expectations to communicate Lebanon’s prospects and development thus far. But more can and should be done to taper excitement because expectations have been inflated and it is one of the needs we identified as we thought about LOGI’s role. The platform of experts we’re developing to inform policymakers and citizens will serve to mitigate unrealistic expectations by presenting complex issues in easy to grasp formats.

This is a completely new industry for Lebanon and one that will take years to develop. It requires a huge financial investment but organizations in Lebanon — whether governmental, companies, or civil society — must make the necessary human capital investment to be competitive at the global level. It will be a long learning process for everyone, including Lebanon’s parliament members. LOGI is truly unique in that our impact is not only to Lebanon but also the global energy industry. The industry globally is shifting toward a more transparent one. Lebanon is a country prone to high corruption and LOGI will apply lessons learned from other countries to avoid the resource curse and shape a sustainable petroleum industry.