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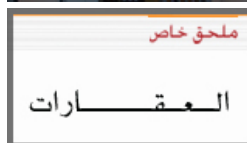
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Implications of Natural Gas off the Lebanese Coast: The Good, the Bad - and the Corrupt

Jaafar al Attar

As soon as the Lebanese Government approved the formation of "the Oil Sector Management Committee" during a recent parliamentary session, a number of politicians started talking about the promising "surprises" awaiting the Lebanese "in the next few days." Others congratulated "the people" on this lost wealth, [found] at the bottom of the sea off the coast of Lebanon.

For their part, the Lebanese people are [still] trying to decipher the [code] within the statements [made by their politicians]. It seems that it has become more difficult to decipher [these statements regarding petroleum] than it has been to understand their [coded messages] pertaining to the issue of wages [in Lebanon].

Official statements on the subject have been concise. They include announcements such as: "The [related] decrees have been issued," and that the next step will be "[completing agreements] with [international oil] companies to start drilling operations." The final step will be to extract the treasure from the sea, so that Lebanon can become an oil country. This would boost the economy and allow its citizens to live happily ever after.

These developments have given rise to a number of questions: How far is Lebanon from this "treasure"? What steps are being taken now and what steps must be taken in the future [to extract it]? Can oil be discovered overnight? Can it be extracted [so rapidly] as to lead to prosperity [for the country]? What are the functions of the Oil Sector Management Committee? How will citizens benefit [from this discovery]? Should we trust the politicians' enthusiasm for the extraction of oil products?

Exploration

In the world of the [oil business], the first on-the-ground operation is exploration. A two or three-dimensional survey must be conducted in Lebanese waters. Subsequently, experts need to address and analyze the results prior to [the commencement of] any drilling operation. [Only this drilling operation] can determine the real amount [of oil], and the type of oil materials lying deep beneath the surface of the sea. Official and non-official experts are trying not to make estimations regarding the amount of oil (which refers to both oil products and natural gas) [that is expected to be recovered from] Lebanese waters. However, they do not hide their optimism. Their optimism stems from knowledge about the amounts (16 Trillion cubic feet of gas) that were recently discovered in the Levantine basin field, off the Palestinian coast. This basin extends into Lebanese waters.

According to experts, [Israel] is likely to benefit from the discovered quantities for more than 50 years. In other words, the quantities [of gas in the Levantine basin] are large, and Lebanon is likely to extract similar amounts [to Israel].

The concerned authorities are awaiting the completion of a three-dimensional survey. This survey is currently underway between Beirut and the northern [part of the country], and follows up on a two-dimensional survey that indicated the presence of ample amounts of oil under Lebanese waters. The current survey will give more accurate technical information, and will take no longer than three months.

According to the initial survey, the oil is located about 60 kilometers off the Lebanese coast. [However], experts have also suggested that there may be large deposits of oil deep off of the southern coast of Lebanon, and there may be [further] oil [deposits] lining the Lebanese coastline. It should be noted that this [second] survey was conducted five kilometers off the coast.

In parallel with the first step, i.e. the exploration already underway, six members of the Oil Sector Management Committee will be appointed within a month to hold a meeting on the issue. Afterwards, implementation decrees [for the oil drilling law] - which have already been prepared in advance and are currently ready to be submitted - must be approved by the Cabinet and published in the Official Gazette.

Licenses and Drilling

After the government approves the issuance of the 13 principal implementation decrees, Lebanese Energy and Water Minister [Gibran Bassil] will make the necessary preparations in coordination with those ministries concerned with [oil] - determined by a study undertaken by the Committee - in order to launch the first round of licenses for foreign companies. [This will be done] according to provisions within the Petroleum Resources Act.

The decrees take into account the fact that Lebanese waters are divided into regions and "blocks," which means that each region will receive a specific number of licenses. The licenses will therefore be granted to more than one international drilling company.

Before companies [start drilling operations], one key step must be taken. In fact, the qualities and terms of the contracts to be signed with these companies need to be defined. These contracts are what will determine the [type] of benefits received by the state: a partnership contract (which grants the state a certain amount of production), a privilege contract (which grants the state a lump sum [of revenues]) or a partnership and privilege contract (which some consider the best [option] for Lebanon).

In the world of oil, it is widely known that the negotiators from international companies are experts in maneuvering to obtain the most beneficial terms [for their companies]. They often attempt to "rig" contracts in order to increase their profits.





Lebanon has dealt [with similar negotiators] in the past, [allowing] Cyprus to encroach upon hundreds of miles of Lebanese maritime territory!

Six months after he begins to grant licenses, the Energy and Water Minister will issue a report to the government. [This report] will include the outcome of negotiations conducted with the qualified applicants, along with proposals for the signature of the drilling and extraction agreement. [This agreement will likely include clauses asserting] that the drilling phase should not exceed ten years and that the production phase should not exceed 30 years.

The drilling process will take at least three years and during this time the government will receive no material benefits. Following this period, it will become possible to determine the types and quantities of petroleum products in the reservoir, and the phases of production and development can be initiated. Subsequently, the state will start to benefit from financial [revenues] on one hand, and from the gains agreed upon with companies on the other.

Petroleum Activities

The process of discovery, in petroleum jargon, means locating the initial amounts of oil by digging a well into the reservoir in the bottom of the sea. The [oil] can subsequently be extracted to the surface through the modern methods employed by the petroleum industry. During the exploration process, drilling wells are needed to explore or assess the content of the reservoir. During this process, the related facility is operated and used, to a great extent, in order to conduct exploratory drilling operations.

Experts have pointed out that the drilling of one well costs no less than US \$100 million. This amount may increase depending on the depth of the Lebanese waters and the nature of the geology [at the bottom of the sea].

For survey companies to find petroleum materials, one well may not be enough. This raises the financial cost. It should be noted that there is a 20% probability that the drilling will find petroleum products in Lebanese waters; that is, out of five wells drilled, only one could be beneficial. This probability is universally considered reasonable and encouraging.

Following the process of exploration is the process of production. This consists of extracting oil from the reservoir by drilling production wells into the reservoir. Afterwards, the product is developed, refined, treated and stored for transport and shipping. Pipelines are subsequently established in order to initiate investment projects.

[Petroleum extraction facilities] are considered public utilities along with various other pieces of equipment used in petroleum-related activities. In exception to this are the vehicles and vessels that are used for the bulk transport of oil, as well as pipes and cables [which are also used to transport the product].

Functions and Powers of the Management Committee

The Board of Directors of the Committee is appointed in accordance with a decree approved by the government and proposed by the Energy and Water Minister. The committee will be financially and administratively independent and will be attached to the minister, who shall be in a position of "custodial authority" over it, in accordance with the Petroleum Resources Act.

The Maritime Oil Resources Management Committee has several powers [and functions]. [First], it conducts studies to promote the [development of] potential oil resources in Lebanon. [Second], it reports to the Minister [of Water and Energy] about the qualifications and capabilities of those applying for licenses. [It prepares invitations to bid for drilling rights, and reviews drilling licenses among other supporting documents related to contracts with potential drillers].

The Committee discusses the exploration and production agreements [with the oil companies]. It also drafts a report detailing the outcome of these negotiations to the Minister so that the final decision may be taken within the government.

Moreover, the Committee is entrusted with the management, follow-up and monitoring of petroleum activities, as well as overseeing the proper implementation of the licenses and agreements and preparing quarterly and periodic reports to be raised to the minister for approval.

It should be noted that the appointments [to this Committee] will be made soon and that these will take into account the sectarian distribution [of Lebanon]. In this context, the question arises as to whether political [factors] are more important than professional competency for the appointments. What of the experts who have been closely following the oil issue since the very beginning? Could they become victims of the Lebanese political game?

Benefit [for the People], or [A Second] Kazakhstan?

Article III of the Petroleum Resources Act stipulates: "The revenues yielded by the state from petroleum activities or rights are to be deposited in a sovereign fund."

A special law will govern the fund's system and administration, as well as the investment, destination and use of its revenues. The law will be transparent [and conditional] in defining the nature of investments. According to the [conditions written into it], the state will preserve a certain amount of capital and a portion of its revenues to keep in a fund for future generations.

[Article III] adds, "The other portion of the [revenues] will be spent in accordance with standards which guarantee the rights of the state and protect the economy from possible short-term or long-term [shocks]."

Based on preliminary surveys, experts agree that the Lebanese Government's oil revenues will be worth billions of dollars if the initial analysis proves to be accurate. [This means] that Lebanon will not have to spend a single [Lebanese] pound since it [is sovereign] over the waters in which the treasure lies.

However, the phases of production, development and exportation [of the oil] pose major risks. These risks include the state of the local currency, the impact on non-oil exports, the conditions of the labor force, the displacement [of people] to areas producing oil, the environmental situation and the conflict between the political and sectarian classes among others. [However], these risks are balanced out by huge benefits [that the oil may bring to Lebanon].

Regardless, Lebanese citizens may not be able to profit off of these benefits. This is what has happened in Kazakhstan, which produced more than 37 billion cubic meters of natural gas in 2010. [Despite this huge production], many Kazakh citizens currently live below the poverty line.

While many are banking on the fact that Lebanon will become rich due to its oil, many experts are calling for national awareness [on the issue]. According to them, citizens should not rely on the promises of petroleum which will need several years to [come to fruition]. In fact, the betterment of the citizens' situation depends on the performance of the government. [The government will] either be fair and wise, or it will opt for satisfying the wishes and needs of those at the head of the financial communities.

Experts point out that - in the absence of control and oversight - there are dozens of ways to scam and steal money from citizens instead of directing returns towards a sovereign fund and utilizing these returns as capital for projects that will directly benefit all citizens and future generations.

For instance, officials responsible for the matters of the oil may take advantage of a partnership agreement. [They may make] a tacit agreement with the manufacturer, that stipulates the need to announce fake amounts of the extracted product. In the absence of official oversight, or if officials collude with the companies with the intention of stealing from their citizens, the company can [fake the amount of oil that is to be extracted over time], instead of declaring the real figure.

Thus, the officials or the owners of the [oil companies] can profit off of the [non-reported extracted oil] by selling it on the black market. In return, they may be granted benefits that may include tax exemption or many other "Lebanese" benefits.

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