

LEBANON GETTING CLOSER TO DEVELOPING HYDROCARBON RESERVES

Introduction

The latest hydrocarbon developments indicate that Lebanon is well on the way to becoming a key player in the Middle Eastern oil and gas industry.

2012 ended with the nomination of the board of directors of the Petroleum Administration Authority (PAA), entrusted with the administration of the petroleum sector. This has led to major progress ahead of the launch of the first offshore oil and gas licensing round, which was officially announced in February 2013. Moreover, the recent discovery of an oil reservoir in Lebanon's northern exclusive economic zone has stirred investors' optimism.

Petroleum Administration Authority finally operational

The long-awaited Decree 9438 on the nomination of the PAA's board of directors was finally adopted and published in the Official Gazette on December 4 2012. Pursuant to Article 10 of the Offshore Petroleum Resources Law (132/2010), the Cabinet approved the six PAA board members in charge of the following six administrative units, each with specific missions:

- the Strategic Planning Unit;
- the Technical and Engineering Affairs Unit;
- the Geology and Geophysics Unit;
- the Legal Affairs Unit;
- the Economic and Financial Affairs Unit; and
- the Quality, Health, Safety and Environment (QHSE) Unit.

The board was appointed for a six-year term, with an annual rotating presidency.

The appointment of the PAA board constitutes a cornerstone in the preparations for the first licensing round (for further details on the PAA's prerogatives please see "Understanding the Offshore Petroleum Resources Law").

Pre-qualification round officially launched

According to the law, before launching the licensing round, the PAA must conduct a pre-qualification round for all joint stock petroleum companies in order to determine eligibility to

participate in the licensing round, where such pre-qualified companies will bid for an exploration and production agreement with the government.

In this respect, on February 6 2013 the Council of Ministers approved the Decree on the Pre-qualification of Companies to Participate in the Petroleum Activities Licensing Round. The decree covers:

- the requirements for applying to the pre-qualification round;
- the application itself;
- the documents that should be submitted; and
- the procedures of the pre-qualification round, including the determination of the legal, financial and technical criteria for awarding qualification.

Application requirements

Each applicant must submit its application individually. All companies permitted to carry out petroleum activities will have the right to participate in the pre-qualification round.

The decree requires that a company belonging to a group of affiliated companies that are applying to the pre-qualification round declare whether it is the group's parent company or whether it maintains the capacity to meet the requirements for applying to the pre-qualification round, either directly or through affiliated companies subject to its control. Each qualified company will be considered as individually qualified, exclusive of the parent company or affiliated companies.

Certain criteria will apply to companies seeking pre-qualification as non-operator right holders, while additional criteria will apply to those seeking qualification as operator right holders. The law defines 'right holder' as:

"any joint stock company which participates in petroleum activities pursuant to this law through an Exploration and Production Agreement or a Petroleum License which allows it to work in the petroleum sector."

According to the decree, a right holder may be either one company or a group of companies, at least one of which must prove that it meets the pre-qualification eligibility criteria set forth in the decree. This major change was introduced by the Council of Ministers. Article 15 of the law provides that exploration and production agreements will be awarded only to pre-qualified joint stock companies. This amendment is a considerable leap from the strategy previously adopted by the Ministry of Energy and Water in the proposed draft decree, whereby each right holder was required to be pre-qualified individually before it could participate as one of the partners in the bidding consortiums, irrespective of whether such a potential right holder was to be an operator. In this respect, while approving the decree as proposed, the council amended the third provision of Article 3 of the decree, which now stipulates that "a company or several companies could become Right Holders on the condition that one of them fulfills the requirements implemented by the Decree".

The first draft of the decree required no local participation for right holders, which were – and still are – allowed to be foreign entities. However, requirements imposed on such local

participation make it difficult for Lebanese entities to become right holders, considering the high technical and financial standards required at the pre-qualification level. The amendment allowing companies that are not pre-qualified to participate in the licensing round if they are part of a larger company in which at least one of the partners is a pre-qualified company thus provides a broader perspective for participating entities and elicits a major shift in the formation of the bidding joint ventures.

Pre-qualification criteria

The pre-qualification criteria are defined on the basis of legal, financial, technical and QHSE criteria; in all cases, the applicant – whether applying to become an operator right holder and/or a non-operator right holder – should submit certain documents and disclosures.

Legal criteria

The company must be defined as a legal entity. Furthermore, according to Annex 2 of the decree, the applicant must be a joint stock company conducting petroleum activities.

Financial criteria

The company's financial strength on an ongoing basis must be established and its capacity to finance ongoing and prospective oil and gas activities determined.

Annex 3 of the decree stipulates that companies applying to be operator right holders must have total assets of at least \$10 billion. Companies applying to be non-operator right holders must have total assets of at least \$500 million. According to Annex 1 of the decree, pre-qualification as an operator right holder automatically gives rise to the right to participate as a non-operator right holder.

Technical criteria

The company's competence in oil and gas exploration and production activities must be demonstrated. Companies may pre-qualify as operator right holders or non-operator or contractor right holders.

According to Annex 4 of the decree, companies applying to be operator right holders must have experience operating at least one petroleum development in water depths exceeding 500 metres. Applicants seeking pre-qualification as non-operator right holders must prove that they are established petroleum producers.

QHSE criteria

According to Annex 5 of the decree, applicants must submit evidence of proper operational procedures and sensitivity for quality, health, safety and environment issues. Applicants must demonstrate their ability to observe all applicable international standards in such areas. Specifically, all applicants are required to submit:

- QHSE policy statements; and
- evidence of established and implemented QHSE management systems.

Official launch

On February 15 2013 the Ministry of Energy and Water announced the official launch of the pre-qualification round as the first step before the highly anticipated licensing round. Interested petroleum companies must submit their application to the PAA by 4:00 pm (Beirut time) on March 28 2013. Announcement of the results is scheduled for April 18 2013.

Once pre-qualification status has been granted, it will remain valid for three years from the date of approval.

The first licensing round is now expected to open in May 2013 and will continue for six months. The bid evaluations will take place between November 2013 and January 2014. The first exploration and production agreements are scheduled to be signed in February 2014.

Newly discovered oil reservoir

In the midst of the launch of the pre-qualification round, an oil reservoir was discovered in the eastern Mediterranean's northern maritime borders demarcating Lebanon, Cyprus and Syria. According to French consulting company Beicip-Franlab, the newly discovered reservoir in Lebanon's northern exclusive economic zone is estimated to contain between 440 and 675 million barrels of oil, doubled by the fact that the area where the reservoir has been found already holds around 15 trillion cubic feet of natural gas.

According to the minister of energy and water, this discovery is unlikely to be the only one, since "Onshore Exploration of hydrocarbons will technically be the next step taken by the Ministry". In this respect, the ministry recently announced the launch of the first onshore two-dimensional seismic survey of potential hydrocarbon reserves, which will be conducted by British firm Spectrum.

A large number of gas reservoirs along the Lebanese coast have already been identified. Indeed, an offshore field located in the southwestern part of the country's exclusive economic zone is estimated to contain approximately 25 trillion cubic feet of natural gas.

All of these discoveries have encouraged leaders to hasten the process in order to jumpstart petroleum activities in Lebanon. As investors have responded positively, Lebanon now seems to be on the right track to become a real player in the Middle Eastern oil and gas industry.