

What's in store for Lebanon's nascent oil, gas sector?

Matt Nash

There is a new debate brewing in the small circles that discuss the best governance practices for oil and gas in Lebanon. While the caveats made Fouad Makhzoumi sound reluctant, he picked a side. The owner of a pipeline design and manufacturing concern, Makhzoumi wears his political ambition on his sleeve. He has run for elected office before and lost, but seems to be gearing up for another battle.

At a live broadcast of a May 26 forum focusing on Lebanon's oil and gas potential, which he co-organized, Makhzoumi urged attendees and those watching at home to support the country's oil and gas regulator. Makhzoumi admitted that he first assumed the regulator's six-member board was staffed with political appointees beholden to the sectarian leaders that chose them. Visiting their offices to see them in action, however, convinced him they were doing serious work, he said. He added that it's best to just stick with the system in place, which was established nearly six years ago, for now.

As far as Lebanese political drama goes, this is nothing. (Remember when Druze politician Walid Jumblatt referred to Christian leader Samir Geagea as "What's his name"?) But it's a new twist in the debate about how Lebanon should best extract and monetize "the devil's excrement" should it be found buried beneath the waves in the country's offshore acreage.

In 2010, the Lebanese parliament passed a law that governs offshore oil and gas activities. Hydrocarbon policy (meaning the highest level decisions) fell to the Cabinet. The Ministry of Energy was assigned a role, and the law also called for establishing a semi-independent regulator — the Petroleum Administration (PA). In many ways, it was the perfect Lebanese compromise. Without full independence, the PA does not take power from the ministry. Board seats are naturally divided equally among Christians and Muslims (with the necessary suballocations), and the presidency rotates on an annual basis, meaning no one faith or sect has permanent control.

While praise of the PA has not been unheard of since the board was appointed in late 2012, the regulator's strategy for developing the sector has been repeatedly assailed. Lebanon's total offshore acreage is over 22,000 square kilometers (around 8,500 square miles). The PA advised cutting it into 10 blocks, but many local news articles claimed the blocks were too big. The PA also suggested licensing the blocks gradually (as opposed to all at once). Again, local media buzzed with accusations that the PA's plan would not fully tap into the country's potential resource wealth. The regulator's vision for how the state will earn revenues from oil and gas (for which there are a variety of different models and formulas) has also been decried in the local press. Most recently, the debate is whether Lebanon should form a national oil company, as many, but not all, oil and gas producing countries have. With Lebanon's first licensing round currently on hold (and no end to the deadlock in sight), there's certainly time for debate, which is part of Mazkzoumi's angle anyway.

In both late 2012 and late 2013, the Ministry of Energy gave its seal of approval to two conferences on the subject. They were big to-dos, with industry players and high-level officials from Lebanon and abroad. The ministry clearly wanted to keep a monopoly on the oil and gas conference market, even warning citizens and potential attendees to be wary of unsanctioned forums on the subject in April 2013. A press release from the time read, in part, "The Ministry of Energy and Water (MEW) and the Petroleum Administration (PA) provide patronage for a number of these events, but is aware of others taking place in which it is not involved. It should be noted therefore that the material presented at conferences by third parties (particularly those events not endorsed by either MEW or the PA) may not accurately reflect the position of the MEW or PA."

By the time late 2014 rolled around, delays were piling up. The ministry's 2013 conference had little new to offer from the year before because nothing in the sector had happened. The 2014 conference was eventually canceled, but that same year Makhzoumi partnered with Front Page Communications to host their first oil and gas forum using the tag line "Lebanon's National Wealth."

Its third iteration included the most high-profile speakers the organizers have yet been able to land, including US Special Envoy and Coordinator for International Energy Affairs Amos Hochstein, who is working as a mediator between Lebanon and Israel on final delineation of

their shared maritime border. (Ever the diplomat, he offered no hints on how the negotiations are proceeding during his keynote address.) Makhzoumi singles out Hochstein's visit in explaining to Al-Monitor how he judges the success of his attempts to influence the sector via the conferences he lends his name to. "We were able to stir up the pot," he said.

The conference's headline takeaway message to the country's political class rang through loud and clear: Move forward with oil and gas and make sure to do so in a transparent manner. Whether it has immediate impact is anyone's guess. It's clear that Makhzoumi, however, is thinking medium to long term. "Today, we have started with the municipal elections, which is an indication that people are saying enough is enough. If we can help them to organize themselves because of the cause of oil and gas ... [to] come down the day of [parliamentary] elections rather than sit and talk, I think we can make a difference."