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Jan. 22, 2014 | 12:16 AM

# Lebanon's gas wealth still attracts majors despite delays in auction dates: GlobalData



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### Summary

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The Daily Star

LONDON: GlobalData, a London-based consultancy company, said Tuesday that international oil firms were still keen to bid for Lebanon's offshore gas exploration despite the delays in an expected auction and political instability.

"Lebanon's first offshore bidding round has generated significant interest from oil firms, and while ongoing political instability has led



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international firms, including ExxonMobil, Chevron, Royal Dutch Shell and Total, have prequalified to bid for gas exploration.

Caretaker Energy and Water Minister Gebran Bassil announced a new date for the auction, April 10, vowing to proceed whether or not a new government is formed.

Khellafi did not rule out yet another postponement by Lebanon of the April 10 auction.

to its third postponement, this time until April 10, 2014, any resultant fall in interest is unlikely to make the round a failure," GlobalData said in a report.

The firm believes the bidding in Lebanon's first offshore round is still expected to be reasonably competitive, thanks to the perceived hydrocarbon potential in the region's waters. A total of 46 international firms, including ExxonMobil, Chevron, Royal Dutch Shell and Total, have prequalified to bid for gas exploration.

Caretaker Energy and Water Minister Gebran Bassil announced a new date for the auction, April 10, vowing to proceed whether or not a new government is formed.

Despite the energy and water minister's apparent suggestion that the round could go ahead without the necessary decrees if a new government is not formed, the report suggests that companies would most likely be wary about bidding in such a scenario due to the legal uncertainty it would entail.

The current caretaker government has refused to sign the decrees required for the round.

The report stressed that the oil companies were lured by the prospects of high quantities of gas and oil off the Lebanese coast.

But some of the firms may not be willing to take the risks that come with working in Lebanon due to the security considerations.

"There may be some potential bidders who are put off by the delays and instability, but this is unlikely to outweigh the prospect of significant discoveries similar to those made in Israel and Cyprus. Large exploration and production [E&P] companies have experience in operating within politically unstable countries, but others will certainly not take that risk, as they just cannot afford it," said Rabie Khellafi, GlobalData's lead analyst covering upstream oil and gas in the Middle East and North Africa region.

Khellafi did not rule out yet another postponement by Lebanon of the April 10 auction.

"Although the three-month duration of the latest extension is more cautious than the previous one-month extensions, it is likely that additional postponements may be required. Not only does Lebanon's political instability appear to be worsening as a result of the war in Syria and increased security threats, but very little progress has apparently been made in forming a new government, with parliamentary elections not scheduled until November 2014," he added.

The report added that once the date of the auction was met, bidders that are awarded blocks will sign an exploration and production agreement, which has a production sharing agreement framework, with the Energy and Water Ministry.

"Apart from the royalties, which are payable at a rate of 4 percent for natural gas and 5-12 percent for crude oil production, all the other main terms, which will determine the state's share of production, will be decided by the bidding. Companies will then pay Lebanon's standard corporate income tax of 15 percent, and foreign companies



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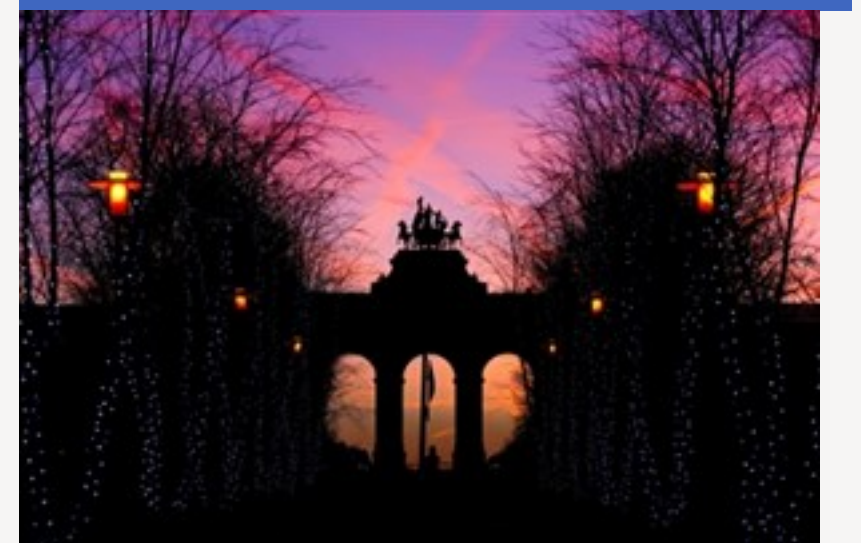
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will also be subject to a 10 percent branch remittance tax, resulting in an overall direct tax burden of 23.5 percent,” said Will Scargill, GlobalData’s upstream fiscal analyst.

LONDON: GlobalData, a London-based consultancy company, said Tuesday that international oil firms were still keen to bid for Lebanon’s offshore gas exploration despite the delays in an expected auction and political instability.

“Lebanon’s first offshore bidding round has generated significant interest from oil firms, and while ongoing political instability has led to its third postponement, this time until April 10, 2014, any resultant fall in interest is unlikely to make the round a failure,” GlobalData said in a report.

The firm believes the bidding in Lebanon’s first offshore round is still expected to be reasonably competitive, thanks to the perceived hydrocarbon potential in the region’s waters. A total of 46 international firms, including ExxonMobil, Chevron, Royal Dutch Shell and Total, have prequalified to bid for gas exploration.

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Despite the energy and water minister’s apparent suggestion that the round could go ahead without the necessary decrees if a new government is not formed, the report suggests that companies would most likely be wary about bidding in such a scenario due to the legal uncertainty it would entail.

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The report stressed that the oil companies were lured by the prospects of high quantities of gas and oil off the Lebanese coast.

But some of the firms may not be willing to take the risks that come with working in Lebanon due to the security considerations.

“There may be some potential bidders who are put off by the delays and instability, but this is unlikely to outweigh the prospect of significant discoveries similar to those made in Israel and Cyprus. Large exploration and production [E&P] companies have experience in operating within politically unstable countries, but others will certainly not take that risk, as they just cannot afford it,” said Rabie Khellafi, GlobalData’s lead analyst covering upstream oil and gas in the Middle East and North Africa region.

Khellafi did not rule out yet another postponement by Lebanon of the April 10 auction.

“Although the three-month duration of the latest extension is more cautious than the previous one-month extensions, it is likely that additional postponements may be required. Not only does Lebanon’s political instability appear to be worsening as a result of the war in Syria and increased security threats, but very little progress has apparently been made in forming a new government, with parliamentary elections not scheduled until November 2014,” he added.



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“Apart from the royalties, which are payable at a rate of 4 percent for natural gas and 5-12 percent for crude oil production, all the other main terms, which will determine the state’s share of production, will be decided by the bidding. Companies will then pay Lebanon’s standard corporate income tax of 15 percent, and foreign companies will also be subject to a 10 percent branch remittance tax, resulting in an overall direct tax burden of 23.5 percent,” said Will Scargill, GlobalData’s upstream fiscal analyst.

A version of this article appeared in the print edition of The Daily Star on January 22, 2014, on page 8.

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