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Resources and Energy

The gas windfall that will make or break Lebanon

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Australians know that natural resources can be both a blessing and a curse and now Lebanon, a country better known for being maligned by corruption and regional conflict, is walking a tightrope between the two after a major natural gas find.

Last month the Middle Eastern country kicked off its first ever licensing round for offshore exploration licences, after UK-based surveyor Spectrum GEO identified offshore natural gas deposits in a 3000sq km section of the Levant Basin.

The company estimates the deposit at about 25 trillion cubic feet and is excited about the high level of interest from companies in pre-qualifying for the licence auction.

But domestic and regional politics are highly charged. The potential for conflict over the gas fields in the eastern Mediterranean has already raised its ugly head in the form of threats from Lebanese group Hezbollah to attack Israeli rigs operating in some 854sq km of disputed maritime territory.

Surrey University energy economist Carole Nakhle says the potential find could be the making of the nation – or its undoing.

Nakhle, who was born in Lebanon and is also an authority on Middle Eastern geopolitics, says the gas resources could potentially be a catalyst for fewer conflicts and more cooperation between Lebanon and its neighbours but it is more likely the new wealth will be a curse, with the government unable to manage the windfall.

"Experience shows in many developing countries that poor management of the resource wealth can turn the presence of the natural resources into a curse," Nakhle says, naming Nigeria as an example of how resources wealth can be squandered.

"We must wait and see... but the risk is big in a post-conflict, deeply divided country with weak institutions like Lebanon."

Nakhle also says there is a risk that the spoils of the Levant Basin discovery will be fought over and politicised, and that the competitive bidding process could be undermined by discrimination and favouritism.

However, the level of interference should be moderated by the open bidding process which, in principle, should harness the "competitive instinct" of companies, she says.

The existing political situation in Lebanon is complex. A 1943 'gentlemen's agreement' permanently divides the roles of president, prime minister and house speaker between Maronite Christians, Sunnis and Shia Muslims – hence the potential for inter-party conflict over any resources windfall.

Even the newly authorised Petroleum Administration Board – which will regulate the gas industry, organise the competitive bidding process for exploration licences and liaise with companies – is a compromise. Each board member is from one of the different sects that live in Lebanon – including the Maronite Christians, Orthodox Greeks, Sunni, Shiite and Druze Muslims – providing another avenue for internal sniping.

But while the nation and the region around Lebanon is better known internationally for its bloody conflicts, it is possible large gas developments (and the need to boost foreign currency levels) could foster international cooperation where diplomacy has failed.

Nakhle points out that Lebanon is still officially at war with Israel, but the need to access export markets may be an incentive to, at least, lower the level of active hostilities.

Israel is about five years ahead of Lebanon in the development of its two major gas fields with discoveries totalling about 28tcf. The state expects production to start in 2016 as several small Israeli firms work alongside Texan company Noble Energy and Australia's Woodside Petroleum, which bought a 30 per cent stake in the Leviathan natural gas field off the country in December.

Lebanon also has territorial problems with Cyprus, which is also sitting on sizable reserves. However, in January the countries said they would work on settling those border disputes.

But it's not just local regional conflicts that could turn Lebanon's resources bonanza into a curse. International eyes began watching developments more closely after the US Geological Survey in 2010 estimated gas deposits in the Levant Basin of around 123tcf and oil of 1.7 billion barrels.

Political analyst Claude Salhani wrote on industry website *Oil Price* that naval ships from Russia, China, the UK, France, Germany, Italy, the US and regional actors such as Turkey and Iran are floating around the eastern Mediterranean, either directly or indirectly because of these gas discoveries.

Salhani says if they aren't directly interested in the gas (as is China), they're trying to lift their regional status (Iran), protect their regional bases (Russia), head off perceived threats (the European powers and the US), or protect their own interests (Turkey, Cyprus, Israel and Lebanon).

“With all those amphibious assault ships... the eastern Mediterranean will probably be either the safest place in the world in which to sail or the most volatile,” he said.

But there is optimism from the business community. Although Lebanon's pre-qualifying round for exploration licences doesn't close until March 28, Spectrum Geo chief executive David Rowland says the more than 40 international oil and gas companies who have spent \$110 million buying the data and the about 120 firms have shown interest in pre-qualifying to bid on the licenses wouldn't have done so if they weren't sure the reserves were substantial and profitable production achievable.

Bidding starts in May and the first exploration and production agreements are expected to be signed in February next year. The Lebanese Ministry of Energy and Water is predicting production of 90,000 barrels of oil a day to be underway by 2020.

The money that should then start to flow into Lebanese coffers could be used to pay down the nation's \$US56 billion public debt (about 135 per cent of GDP) while the gas itself could be a boon for the chronically energy-short country.

But first Lebanon must overcome its own internal conflicts, kindle friendly relations with its neighbours and foster institutions strong enough to defy a legacy of corruption and conflict.

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