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What's next for oil and gas in Lebanon?

Regulators tell NOW what to expect from first oil and gas licensing round and beyond

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Lebanon's new government pledged to "continue and accelerate the measures related to issuing licenses for the drilling and extraction of oil" in its recent **policy statement**. This morning, Al-Mustaqbul newspaper said the cabinet will today discuss two decrees necessary for Lebanon to begin accepting bids from international companies eager to explore its territorial waters.

NOW spoke with two members of the Lebanese Petroleum Administration – the sector's regulator – about what the process of licensing for oil and gas exploration (and, potentially, production) will look like. However, the bureaucrats only agreed to be interviewed on condition of anonymity.

How will it start?

Lebanon is preparing to accept bids to explore for offshore oil and gas. What will the process look like? (AFP Photo/Luis Gene)



"We haven't decided yet when to close it."

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In oil and gas industry parlance, auctioning off rights for a company (or companies) to explore a country's onshore or offshore holdings is called a licensing round. Technically, Lebanon's first licensing round started on May 2, 2013. However, at that time, companies could not begin bidding as expected.

The hold-up was – and still is – two decrees cabinet needs to pass related to the sector. One outlines the different blocks the LPA recommends carving Lebanon's waters into, and the other outlines a model exploration and production sharing agreement companies will eventually sign with the Lebanese government.

Bids can't be accepted until companies know what they will bid on (the blocks) with clear rules for how to bid (the model contract). The LPA drafted its recommendations for these decrees around one year ago. Miqati's government, however, **didn't approve them** before resigning, hence the lack of progress.

As soon as the decrees are passed, however, it's game on for oil and gas exploration in Lebanon, the LPA board members said.

One board member said that once the decrees are approved, "we will set a date for the end of the licensing round." He explained that, legally, the licensing round began in May. The law stipulated that the round must be open six months. Since it's been open nearly 11 months, the LPA can now close it when they see fit, the board members said.

"We haven't decided yet when to close it," one member said.

In early 2013, Chris Steel – chief commercial consultant for Chevron, a major international oil company pre-qualified to bid in Lebanon – **told a conference** in Beirut that bidders would want at least three months to study available data related to Lebanon's offshore potential and prepare offers for government review.

Going once! Going twice! Sold!

While words like "bid" and "auction" are commonly heard when talking of Are you a developer? Try out the [HTML to PDF API](#)

a licensing round, it's important to remember that Lebanon is not selling off Haifa Wehbe memorabilia. An oil and gas contract licensing round doesn't happen in one day. And – unlike most government contracts – international oil and gas companies are offering in their bids to pay the state money, not receive cash from the government for services rendered as is the case for contracts to build new roads or power plants, for example.

So what exactly will these bids look like? One LPA board member told NOW that companies – by law three international companies must come together in a consortium to bid on a block – will submit a technical plan and a commercial plan with their bids.

The technical plan includes details like “the work program if they want to bid for a block – what's the plan and the timeframe” for exploration. Given that no oil or gas has yet been found in Lebanon's waters (although surveying to date suggests Lebanon has much potential as a future energy producer), the technical plan will only focus on exploration activities.

A production plan will only be submitted to the LPA if commercially viable oil and/or gas discoveries are made, one of the board members said.

Both literally and figuratively, the real money is in the commercial plan.

“It's very complicated, but you can say it's the government take,” one board member said.

Production and sharing agreements can be complex documents. They detail the rights and obligations of both the state and the company (or companies) exploring for and – if discoveries are made – producing any oil and gas. Different countries have taken different approaches to these contracts. In Lebanon, the LPA recommends making two parameters within the contract biddable (meaning that this is the only part of the contract that will differ based on which companies are making offers).

“We use these parameters to calculate the government take [from any future oil and/or gas revenues, if commercially viable discoveries are made],” one board member said. “The best bid is the one that gives the government the most money.”

Picking a winner

Once all the bids are in and the licensing round closes, the LPA will then evaluate the bids and choose winners for each block. Currently, the LPA wants to open five blocks for bidding in the first round.

This decision on the number of blocks to put on auction first, however, is ultimately made by the Minister of Energy. Former Energy Minister Gebran Bassil was on board with the LPA’s five-block plan, and current Energy Minister Arthur Nazarian is likely to agree also.

The LPA, it should be noted, has little power to make decisions itself. While tasked with regulating the offshore oil and gas sector, the body must submit all decisions to the minister of energy for approval. Some decisions also require the approval of cabinet or parliament, depending on the decision.

Asked how long the evaluation of bids will take, one of the LPA board members told NOW, “it depends on the number of bids.”

Both board members said that once bids are submitted, neither the LPA nor the Minister of Energy nor the cabinet can try to negotiate the commercial plan with the companies. The minister and the LPA can, however, make suggestions or ask for clarifications on the work plan.

Signing an actual contract falls under the cabinet’s authority, the board members said. While the LPA recommends which bids should win, ultimately the cabinet decides. And the cabinet could choose to accept fewer offers than the LPA recommends or could even accept no offers at all – opting instead to ask the LPA to organize a new licensing round, the board members said.

Moving toward production

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If and when exploration and production-sharing agreements are signed with one or more consortium, said consortium (or consortia) will have two months to submit a concrete timeframe to begin exploration work.

“This depends on the readiness of the companies, but the contracts start when they’re signed,” a board member said.

Estimates vary widely in terms of how long the exploration phase will last. Lebanon – unlike many other as-yet-unexplored places with oil and gas potential – has done significant amounts of both 2-dimensional and 3-dimensional surveying of its offshore waters, which could speed up the exploration phase. However, looking at survey results does not always lead to quickly striking gold thousands of feet beneath the earth’s surface.

What is certain, however, is that once the two decrees are passed, the process of searching for Lebanon’s potential oil and gas deposits will begin in earnest.

Keeping it open

The oil and gas industry is notorious – rightly or wrongly – for being opaque and corrupt. The LPA board members who spoke to NOW, however, vowed to be as transparent as possible, saying the model contracts will be publically available once they are approved by the cabinet.

The board members also said they are working with international transparency organizations to put Lebanon in line with global oil and gas industry publishing standards. Bids, for example, include much information oil and gas companies want kept away from the eyes of their competitors and not every bid wins, so bids will not be made public.

As for signed contracts, “after awarding the contract, we still have to decide what will be published and what will not,” one board member said.



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