

# Hands off!

## Youth leaders are looking to move the oil and gas sector forward

- **ECONOMICS & POLICY**

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*The acoustics of an empty parliament echo its members' inefficiency*

Yet another extension for companies to submit bids in Lebanon's first offshore oil and gas licensing round was announced in mid-August by Minister of Energy and Water Arthur Nazarian, indefinitely extending the deadline to no more than six months after the two needed decrees are adopted.

But oddly enough, the youth wings of Lebanon's political parties — the future politicians and party leaders themselves — agree that the current batch of politicians is obstructing the licensing round with their meddling. Today's politicians, youth leaders suggest, are keen on securing a piece of a future gas revenue pie rather than focusing on how the potential resource would benefit the country and its citizens. Related issues on the Lebanese political

scene are also implicitly holding up the process — the country is without a president while the parliament looks set to again extend its own mandate.

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Throughout 2014, youth leaders have been meeting to discuss the issue of oil and gas focusing on ways to maximize the benefits of potential resources to improve the lives of Lebanese. Their intention is to lobby government officials with recommendations to implement transparency and good governance measures, preempting further political influence in the floundering sector. And surprisingly, they all appear to be on the same page.

### **Hey, listen to us!**

Lebanon's youth political leaders are doing something their elder counterparts are not: engaging each other on the issue of oil and gas. While parliament has left the issue mainly to the Ministry of Energy & Water, with guidance from the Lebanese Petroleum Administration (LPA), to call the shots in this new sector, youth leaders are realizing the need for at least some level of policy discussion, and at best hope to remove political interference from the equation.

The discussions are part of dialogue sessions facilitated by International Alert, an international non-governmental organization, aimed at strengthening relationships and building capacity for young leaders to work together.

It has taken months of preparation since the start of 2014, a high investment cost youth leaders acknowledge, to reach a confident level of comprehension of the subject matter. This is an important point, explains Raed Bou Hamdan, a leader from the Progressive Youth Organization — the youth wing of the Progressive Socialist Party — because “We are all [all of the Lebanese population] still ignorant of this sector, which is dangerous because if we're looking at and planning for a transparent sector [and] sustainable development of the country for future generations, we have to create this awareness first, to make all of the Lebanese aware.”

Their preparation has resulted in a foundation of knowledge, empowering the group with the confidence to draft recommendations. Once in their final form, the leaders will present their advice to the LPA, the Minister of Energy, and the Ministerial Commission studying the two needed decrees, before announcing it to the public.

### **Youth leaders sing kumbaya**

The issue of oil and gas has been easier for youth leaders to discuss than most. When compared to rounds of dialogue sponsored by International Alert from previous years — where topics included national defense, Palestinian affairs or education policy — the consensus among youth leaders this year is that the topic of oil and gas is less contentious.

They are, however, only discussing this issue through the initiative of the NGO. With funding from the Norwegian Foreign Ministry, International Alert gathers youth leaders from Lebanon's biggest political parties each year to discuss prominent issues facing the country.

Victoria Stamadianou, International Alert's country manager, contends it is a needed program that empowers youth leaders to build relationships that bridge party and bloc ideologies. "There's not really a culture of 'let's have our conversations based on the facts.' So the idea was to try and explore a new role for doing politics differently," Stamadianou says.

And by all accounts the program, now in its sixth year, has eased animosities. "At the least, the program has reduced tensions. The atmosphere is less intense," says Rebecca El Hosry, a leader of Marada Youth Bureau, the youth wing of the political party Marada. Closer connections are something she thinks will benefit the youth leaders as they mature in their political careers, by networking and building relationships through dialogue.

### **Recommending some recommendations**

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Later this year, the group will lobby government officials to pass transparency measures governing the oil and gas sector, ensuring sound preparation of the legal framework governing a future sovereign wealth fund, and utilizing resource revenues for equitable social development for coming generations.

There are still a few more sessions to revise and finalize the recommendations, but the framework of their advice is in place. The framework falls under three branches: promoting transparency and good governance in the management of the sector and its revenues; creating a sovereign fund benefiting future generations; and utilizing revenues for sustainable development.

"We kept the recommendations general, we didn't go a lot into details because that's something requiring expertise. We understand the subject, but we're not experts," explains Antoun Souaid, leader of the Youth and Student Committee, a wing of the Free Patriotic Movement.

The group is recommending the government formulate a comprehensive national strategy that incorporates the perspectives of the private sector, political parties and civil society. This is an issue that the LPA has already begun to address through presentations at past conferences, outlining a vision centered on three main areas: upstream exploration and infrastructure, education and employment preparation, and a downstream petrochemical industry. At the LPA's upcoming October conference, LPA members will further articulate this vision with specialized sessions for exploration and geophysics, value chain and localization, and dedicated sessions for students and young professionals. A comprehensive national strategy, though, has not been articulated, at least publicly.

According to the conference's website, a workshop for engaging local communities and non-governmental organizations through corporate social responsibility programs is planned, while a separate workshop on the Extractive Industries Transparency Initiative (EITI) is also in the works. Joining the EITI is also a recommendation the youth leaders will present as well as recommending disclosure of the terms and results of tendered contracts.

"The example we give for access to information is the declaration of the contracts, so you have to declare after the first round of bidding. Contracts shouldn't be kept secret all the time," explains El Hosry. But this recommendation to clarify terms and disclose information would only apply after contracts are awarded. A more effective measure that EITI experts advocate is the adoption of EITI prior to the awarding of contracts, along with the inclusion of civil society in discussions on the fiscal terms.

Article 3 of the 2010 Offshore Petroleum Resources Law prescribes a sovereign wealth fund, regulated by a yet-to-be written law establishing the fund, for the net proceeds collected from petroleum activities. Here the youth leaders recommend adopting standards of good governance so that the fund is not mismanaged. The recommendation is not on the specifics of what should be in such a law, but the group is stressing accountability of the fund's management body to its supervising authority as well as an independent auditor of the fund, with emphasis on institutional regulations and strict codes of conduct.

One example to draw on comes from the Ministry of Finance, which produces regular financial reports, even though the ministry is not under legal obligation to do so. For the sovereign wealth fund, the youth leaders are demanding mandatory publication of periodic reports on the financial status of the fund. The EITI will be a useful tool, if adopted by Lebanon, for guiding what financial data to publish. What these recommendations imply, which should be clarified in their statement, is a need for internal mechanisms at the fund as well as legislation both requiring the public disclosure of, and access to, information. This type of law is in addition to EITI disclosure requirements and adds another tool for monitoring, not limited to only oil and gas but government-wide.

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Finally, the group will recommend investing in Lebanon’s youth through sustainable development — prioritizing the needs of future generations. The youth leaders outline such development on separate levels: a downstream petrochemical industry focusing on diversifying the economy and creating jobs; development programs to empower disenfranchised Lebanese through services like health and education; infrastructure development to encourage investment in Lebanese businesses; reviving the education system of the country; and reactivation of the Ministry of Planning (replaced by the Council for Development and Reconstruction through Decree No. 5/1977).

Even while the youth leaders acknowledge the basicness of their recommendations — “We’re not adding anything, we’re not reinventing the wheel,” Souaid says — a final version of their recommendations might articulate more clearly how transparency, revenue management and sustainable development are interrelated.

### **Building a collective knowledge**

Youth leaders admit their knowledge of oil and gas was quite limited at the onset of dialogue. As Bou Hamdan puts it, the group’s understanding of the subject “was approximately null. I think that we still are in an early stage of knowledge of this topic.” El Hosry says that before beginning to discuss the topic during the International Alert dialogues, her knowledge of the subject was “nothing. There was not a lot of information available.” During the initial sessions Nawar Samad, a dialogue participant representing Future Youth — the youth wing of the Future Movement — says the group increased its understanding of the topic by reading what was being reported through the media. The group, he says, “Did have information, but not official information.”

To address this deficiency, International Alert invited members of the LPA as well as experts in transparency and good governance in the oil and gas sector, to speak to the youth leaders. “We had reviewed journalistic work and studies, but [now] we were getting information from the [LPA],” says Samad. Nassim Abi Ghanem, a youth leader representing Tajaddod Youth — the youth wing of the Democratic Renewal Movement — explains that through their research the group was “much more confident in the knowledge that [they] have and very comfortable [discussing] the topic,” noting the importance of preparation prior to engaging experts in discussion. “It’s not easy for one to sit down with them, they are references [on oil and gas],” adds Samad.

### **Decision makers to take notice?**

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When asked whether their recommendations will have any impact on policy and the direction of the sector, most youth leaders answered with hesitation. El Hosry was initially skeptical as to whether government officials will take their recommendations seriously, “This is a big issue [oil and gas], but we’re trying our best. How much it will have a strong effect ... fingers crossed.”

Defying the notion of youth leaders’ limited influence, Abi Ghanem notes, “If the youth are in this dialogue, they have this belief [that the recommendations] can be pushed and we must, we might use various ways, get it through or else we’ve been wasting our time for the past year.” But Abi Ghanem also quickly adds, “If we achieve that, we’ll have achieved [something] unprecedented.”

“I don’t have high expectations [to impact policy] but at least we can tell officials we are aware of this and the people are not blind,” Bou Hamdan explains while discussing the specifics of the recommendations. But he also emphasized the necessity for public awareness and active participation in the sector, because “maybe tens of people are totally aware” of what is happening and what should be done. Beyond government officials and a handful of experts, not many in Lebanon have even a basic knowledge of oil and gas, Bou Hamdan points out.

Several of the youth leaders interviewed for this article, however, insist they’ll lobby the recommendations with their parties’ MPs through internal dialogue. Souaid, from the FPM’s youth group, says this has been a very effective method before for his youth party to influence internal decisionmaking. Given the weight of his party in the parliament and council of ministers, he expects at least some level of impact.

The consensus of the youth leaders in drafting the recommendations, rather than their content, is what will really add weight. “It’s not the recommendations themselves, it’s the act that will have a big impact because we’re all unified behind this,” Souaid says, adding that because all youth parties are unified on this issue “It will be more powerful to put more pressure on decisionmakers.”

### **Strength through unity**

“As youth participants we are unified on this topic, so that’s a strong sign to older politicians”

“Even though there are a lot of political problems in Lebanon, as youth participants we are unified on this topic, so that’s a strong sign to older politicians,” Souaid reiterates.

Their greatest strength, the group agrees, is that all the youth leaders from this round of dialogue agree on the important principle that the sector must incorporate transparent

measures from the start. “The good thing about this sector is it’s new, it’s a fresh start. So by doing things right from the first step, being transparent and not having corruption. That’s why we’re emphasizing this matter,” Souaid says.

It is this cohesion the youth leaders believe will give them strength in their efforts to influence the direction of the sector with government officials, “We’re going to the ministry and to the [ministerial] committee and we’re telling them we are youth organizations representing 95 percent of the political parties in this country,” Bou Hamdan iterates.

### **Beyond lobbying**

The recommendations will not be the culmination of their work, the youth leaders insist. They say they plan to continue following up with the issue, by potentially forming a representative committee of youth leaders away from International Alert to follow the topic, as well as within their own political parties.

Internal party discussions, Samad says, should incorporate the values that the youth leaders represent in their unity on the recommendations, forming what should become the foundation of parties’ platforms on the issue of oil and gas. “Within our parties, we want to work on making this document part of our demands in entering the [parliamentary] elections, [the recommendations] should be on the program of all parties [whereby they pledge]: ‘if we reach power, we’ll apply them.’”

Notably, the group does not anticipate presenting its recommendations to members of parliament. There’s no point, El Hosry indicates, because “parliament members don’t work in parliament. They don’t make laws, they don’t do anything.”

Political interest is not focused at all on the issue of oil and gas, says Samad. “The topic in and of itself has a problem. The stage of drilling for [oil and gas] has not begun. And the [oil and gas] law ... is still awaiting some decrees. Lebanon’s political situation is leading to further delays for this topic.”

Concerning members of parliament, El Hosry concurs, “There is no one talking about it, there’s no emphasis on oil and gas in Lebanon.”

### **Space to breath**

Abi Ghanem says when it comes to the governance of the oil and gas sector this must be separate from politics, that political influence should reinforce the values of transparency and good governance rather than focus on squabbling over who gets what. “The most important thing is this is governed away from politics. Or else all of this will go to waste.”

“If you want to hurt me, I can hurt you back,” Antoine Dagher tells Executive, laughing as he tries to keep his name out of this article. A former communications manager for Petroleb, one of three Lebanese companies prequalified to bid in the first offshore licensing round, Dagher belatedly clarifies, “I’m not threatening you.” Petroleb still uses Dagher as a consultant, but in early September, so did the Lebanese Petroleum Administration (LPA). Executive had wondered whether or not this was a conflict of interest, which Dagher insisted it was not.

Apex Gas Limited, is actually registered in Hong Kong, not Beirut, through a process tailored to keep shareholders and directors anonymous

This is only one of the complications encountered in trying to pin down the details about the three ‘Lebanese’ companies — out of a total of 46 — prequalified to participate in Lebanon’s nascent oil and gas sector. A company identified by the LPA as a ‘Lebanese’ prequalifier, Apex Gas Limited, is actually registered in Hong Kong, not Beirut, through a process tailored to keep shareholders and directors anonymous. Taken together, these experiences offer a fresh perspective on the murky nature of the oil and gas industry, and how instead of starting off with a clean slate, it appears Lebanon’s new petroleum sector is already sliding into the shadows.

### **Experience needed, unless you have a partner**

Both Petroleb and Apex have no previous experience in the industry. Only the third prequalified Lebanese business, CC Energy Development (CCED), is an established oil and gas company, having drilled and produced oil onshore in Oman since 2010. But the lack of experience did not stop Petroleb and Apex from making the cut. According to the 2013 decree governing the prequalification process, companies that don’t meet the eligibility requirements — including previous oil or gas production experience — can partner with companies that do meet the requirements to jointly prequalify as one legal entity. This is precisely what both Petroleb and Apex did. Petroleb paired with Bermuda based GeoPark, which is active in South America, and Apex teamed up with the UAE’s Crescent Petroleum, which got into the oil and gas game in the early 1970s.

Both Apex and Petroleb tell Executive they plan to branch outside of Lebanon, but there is no evidence either has done so yet. Petroleb’s Chief Executive Officer Salah Khayat tells Executive, “Petroleb is active outside Lebanon and is considering various [exploration and production] assets, while building its technical team.” Chief Operations Officer Naji Abi Aad says an announcement of the company’s work outside Lebanon is forthcoming.

### **Friends in high places**



Karim Kobeissi, Petroleb's lawyer, was an advisor to the Ministry of Energy and Water in 2008 and helped write the 2010 offshore exploration and production law

In addition to serving as Petroleb's chief executive, Khayat owns 50 percent of the company, which was founded in September 2011, according to papers it filed with Lebanon's commercial registry. Khayat is the nephew of Tahseen Khayat, owner of Al Jadeed television and founder of the Tahseen Khayat Group, a sprawling conglomerate with businesses in engineering and contracting, publishing, printing, hospitality and leisure, and sales and distribution in both Lebanon and abroad. Omar and Bashar Khayat evenly split the remaining 50 percent of Petroleb's shares. Karim Kobeissi, the company's lawyer, was an advisor to the Ministry of Energy and Water in 2008 and helped write the 2010 offshore exploration and production law.

According to the company, its deep connections offer excellent benefits to its bidding partner, GeoPark — an important point given Petroleb's dearth of experience in oil and gas. COO Abi Aad says, "Everywhere in the world, if you have good connections and a strong position with the main decisionmakers you have [a] good chance, but you have to have the technical requirements. We have very strong connections in the country and good relationships, we know everybody in the country." He concludes, "You can be sure GeoPark finds us useful."

### **Hong Kong connection**

But while Petroleb is up front about its business model, information on Apex is much harder to come by. The company is not registered in Lebanon, nor does it have a website. A booklet produced by the LPA offering information about all 46 prequalified companies is dead silent on Apex, the sole omission.

Apex's true owners, UniGaz CEO Mahmoud Sidani and Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon Chairman Mohammad Choucair, aren't on the documents

Apex was registered in Hong Kong in April 2012, company lawyer Tarek Nahas confirms. Nahas says he chose Hong Kong as a place of registration — as opposed to Lebanon — so as to be governed by English law in order "to have a clearer legal framework." Asked why the company's papers, which Executive purchased, do not list any Lebanese nationals, Nahas says the company's true owners, UniGaz CEO Mahmoud Sidani and Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon Chairman Mohammad Choucair, aren't on the documents. Both Sidani and Choucair confirmed they are partners in Apex, but only Sidani would grant a more in depth interview.

Apex is benefiting from a Hong Kong secrecy provision that allows owners to pay yearly fees to have nominal directors and shareholders listed on paper to “keep your true director identity completely confidential,” as a Hong Kong based incorporation services firm puts it. On paper, the director of Apex is Roger Leo A. Carino and the company’s sole shareholder is Abacus (Nominees) Limited. A conversation with Intercorp, another Hong Kong based company registration service provider, reveals that both Carino and Abacus are strawmen in place to keep Sidani and Choucair publicly distanced from the company. Carino is also listed as the director of Apex Oil and Gas Limited, another company registered in London. Reached by phone, Carino says he doesn’t have any paperwork in front of him and is preparing to travel, so he cannot answer Executive’s questions. He did not reply to an email Executive sent seeking clarification. The sole shareholder of Apex in London is Aries Global Investments, registered in Curaçao in the Dutch Caribbean. Nahas says he knows nothing about the Apex in London, despite the exact same names and directors.

Sidani could not explain why Apex chose to pay money to obscure its real owners from public view, referring Executive back to Nahas, who did not respond to a follow up interview request.

When set up in 2012, Apex was worth a scant HKD 10,000 (\$1,290), and nothing more recent has been publicly disclosed

Unlike Petroleb’s Abi Aad, Sidani did not cite “connections” as the benefit his company brings to its partnership with Crescent Petroleum, but he did get defensive when first asked. “We are investors, and [as] Lebanese investors, it’s our right to put our money in Lebanese gas. [It’s] as simple as that.” Pressed on what Apex brings to the table, Sidani says, “They want us to share the risk, because this is like bingo, you might spend \$400 million on four wells and not find any gas. So we are splitting the risk.” It’s unclear, however, just how much risk burden an apparently tiny company — when set up in 2012, it was worth a scant HKD 10,000 (\$1,290), and nothing more recent has been publicly disclosed — can shoulder compared to a company like Crescent, which is worth at least \$500 million.

But this is just one question in a sea of uncertainty that encompasses both Apex and Petroleb — and raises questions about the transparency of the entire sector. When asked the simplest of questions, to confirm that Apex is registered in Hong Kong, the LPA declined to answer.