

A national oil company for Lebanon?

A premature and incomplete debate

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It's been three years since the nascent oil and gas sector in Lebanon was brought to a complete halt. The relative success of the pre-qualification round in 2013 brought the sector to center stage and contributed to the hype surrounding it. But the pre-qualification round was not followed by a tendering process. Instead, this was put on hold for a variety of both rational and irrational reasons. No licenses were awarded. No exploration was conducted. Not a single discovery was made.

Yet, the oil and gas debate in the country appears to be oblivious to these realities.

Conferences abound, though on a much smaller scale than a couple of years ago, and instead of investments and grandiose ambitions, we are left with capacity building and activism. Nearly every university in the country has launched new majors to prepare the Lebanese youth for work in the country's petroleum industry. The first batch of graduates will soon enter a market which is completely void of a petroleum industry. But, perhaps the strangest debate in town, the one attracting all the attention in the past weeks and months, is the question of whether or not Lebanon should establish a national oil company (NOC) and when, for the sooner the better.

Taking a step back

Article 6 of the 2010 Offshore Petroleum Resources Law provides for the establishment of an NOC "when necessary and after promising commercial opportunities have been verified." The law includes a degree of prudence that is welcome, though the article is now being associated with conspiracies alleging that it intends for petroleum activities to favor the private sector at the expense of the nation's wealth. Calls for establishing an NOC years before any verification is possible is at best questionable and raises fears that the company would face the same crippling challenges most other public institutions in Lebanon have long suffered from: patronage and mass-staffing, at the expense of productivity.

The debate lacks a strategic vision. And, as is the case with public institutions in Lebanon, particularly those operating in a lucrative sector, these are regarded more as tools of political influence rather than instruments intended to effectively implement a particular policy.

It is not enough to call for the establishment of an NOC at this stage, though it is not a complete anomaly to establish an NOC prior to any oil or gas discovery. But there is a series of questions that must be carefully considered, particularly at the pre-discovery phase.

Crucial questions

What will the NOC's mandate and objectives be? This could range from the relatively reasonable to the very ambitious, and may require revising the legislative framework, with inevitable interferences and stalling whenever deemed necessary by one or more political sides. Is there a risk of institutional proliferation? The multiplication of institutions all addressing the same issues without a clear division of roles and responsibilities cannot guarantee a sound management and presents the risk of duplication of work. It is also important that ambitions are realistic and match the resources available, so as not to disappoint.

Does it have the capacity to carry out its mandate? It is critical to understand the time and resources needed to develop the required capabilities, and factor in possible hurdles. It is also important to be fully aware of the weaknesses, and resist the urge to brush them off, by, for example, claiming that we can seek the services of the talented Lebanese diaspora. Experience shows that the "Lebanese diaspora" argument is used more frequently than are the actual services of said diaspora.

How large will its workforce be and what will the hiring process look like? In Lebanon, it is very hard to resist clientelistic tendencies and the urge of mass-staffing public institutions. Some of those calling for establishing an NOC at this stage have a poor record in this regard.

What are the resources needed to carry out its role, knowing that it will have limited revenues in the pre-discovery stage? It is critical to understand the financial requirements and have the means to meet them. At the pre-discovery stage, and with little (onshore) to no (offshore) exploration activity, expenses must be kept under control.

What guarantees are the proponents proposing to alleviate fears that this company would not be mismanaged or would not dry up public funds? Following the experience of Electricité du Liban, the Lebanese are traumatized and their fears need to be addressed. If recent experience with

Lebanese public companies is an indication, there is a real threat that an NOC would suffer from the same problems plaguing other already established companies. These include mass staffing, at the expense of quality (rendering the overall work less efficient), and possible corrupt practices. Are there any valid reasons to believe the management of this company will be an exception?

A generational conflict?

Finally, it's worth noting that those that are most active in calling for establishing an NOC all belong to a certain generation that has experienced the past 'glories' of nationalization in resource-rich countries. However, today's context is fundamentally different than that of the 1960s and 1970s. Maybe what is needed more than an NOC at this stage is for professionals and specialists that have a relevant experience in today's oil and gas industry to set the framework for a national debate.

Establishing a national oil company is not intrinsically a bad idea. But for it to work, the subject deserves to be addressed from all angles and for all the aforementioned questions to be much more carefully considered.