

# THE DAILY STAR

LEBANON

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## Lebanon oil tenders: slowly but surely

By Samer Khalaf

Criticism of the slow progress on inviting companies to explore for hydrocarbons in the waters off the Lebanese coast is becoming louder. But the critics must also see that Lebanon is slowly, but surely, making headway in its preparations to absorb this new challenge.

The chorus of disapproval we are hearing obscures the evidence that efforts to create a viable national policy and infrastructure for the hydrocarbon sector have progressed in the past year.

An effective campaign to maintain major oil company interest from around the globe was launched through efficient data management, direct interaction and public awareness, as well as specialized seminars. With the help of international consultants, a transparent legal and fiscal framework for exploration and development was approved which is advantageous to oil companies and at the same time grants the country favorable terms to profit from and capitalize on its potential wealth.

Officials and advisers from the various concerned ministries were given adequate international training and are now able to effectively negotiate and support the various ministries in their discussions with oil companies.

Whereas many emerging markets with potential mineral wealth have rushed to contract companies without establishing the proper structures and regulations to protect their interests and guarantee effective exploration and production, Lebanon has prepared itself effectively. It is not uncommon for emerging oil countries to be influenced by major oil companies to draft petroleum laws skewed in the latter's favor, or to approve laws indirectly harming their economy and labor market. Some nations have gone so far as to have granted all their acreage to a single oil company while many have allocated attractive concessions to small companies with no experience and funding.

On the technical side, Lebanon has commissioned the mapping of more than 14,000 linear kilometers of 2-D seismic scans and over 10,000 square kilometers of 3-D seismic scans and completed their interpretation, thus significantly lowering eventual exploration risks for bidders and saving time in the exploration stage. This effort has also given Lebanon insight on resource assessment that would allow it to effectively delineate the different license areas and thus capitalize on more favorable terms and conditions with contractors.

For a country with a volatile political climate in a region turned upside down in the past two years, while at the same time struggling to rebuild its institutions and economy, Lebanon has set the ground work and improved its chances for a successful road ahead. A major risk for a

nation's interests in its hydrocarbon wealth is the non-performance of contractors usually due to lack of expertise and funding. Lebanon has implemented a consortium system based on technical and financial capabilities therefore limiting the risk of non-performance by not allowing smaller inexperienced companies to obtain any acreage.

But the criticism of delays and lack of progress toward engaging oil companies is not entirely unwarranted, especially when compared with the achievements of Lebanon's neighbors. Syria is an established oil producer; Cyprus has just completed its second bid round while Israel is on its way to commercial production next year. The government has missed milestone after milestone and left oil majors, who continue to show strong interest, with a lack of guidance on whether the hydrocarbon file will be ready for tendering before the upcoming elections next year, when a new government would be formed.

This is happening against a backdrop of a fast-deteriorating economy coupled with a dire electricity crisis in need of investment and an adequate and cheap source of gas supply. The government aggressively set timelines without properly grasping the complexity and political delicateness of managing such an overwhelming process.

The major milestone needed to lay the tracks for the first bid round is the establishment of a petroleum administration made up of six members covering the different religious confessions in the country with a rotating presidency. The administration would act as a de facto national oil company, until one is formed, raising all relevant issues to the Energy and Water Ministry. Establishment of this administration has been the main stumbling block for advancing the offshore gas file. Fast developing regional and local events along with the government's constant infighting has been the reason for this failure. It has also taken the steam out of the initial enthusiasm for the hydrocarbon opportunity demonstrated when the government was established in June last year.

Looking ahead, we should not be over-critical at the country's slow pace and should remain realistic in our expectations. There is more vital work to be done and more political harmony needed before Lebanon reaches its ultimate goal of becoming energy independent.

Samer Khalaf is managing director for the Middle East and Africa at GPB Neftegaz Services.

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