

NATURAL GAS DEVELOPMENTS IN LEBANON: INTERVIEW WITH ROUDI BAROUDI

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Natural Gas Europe was pleased to have the opportunity to speak with Mr. Roudi Baroudi on developments in Lebanon's natural gas. In 2000, Mr. Baroudi was elected secretary general of the World Energy Council (Conseil Mondial de L'Energie) – Lebanon Member Committee where he served until January 2013. He is also a member of the Association Française des Techniciens et Professionnels du Pétrole – (French Association of Petroleum Professional & Technical Experts). Mr. Baroudi is a former senior adviser to the Arab Electricity Regulatory Forum – (AREF), member of the Energy Institute, (U.K.), and a member of the International Association for Energy Economics (IAEE) in the US and is founding member in establishing the REMEP (Rome Euro-Mediterranean Energy Platform) issued by the Euro-Med Energy Ministers in Rome in 2003.

Recent explorations indicated the strong likelihood of large amounts of gas offshore Lebanon. Spectrum estimates the deposit at about 25 trillion cubic feet and discoveries in neighboring countries also encourage that fact. Lebanon has been trying to catch up, well behind in the race for gas. It has appointed its Petroleum Administration Authority and approved the Decree on the Pre-qualification of Companies to participate in the Petroleum Activities Licensing Round. What are the risks and opportunities for investors?

The broader region consisting of the Eastern Mediterranean, North Africa and the Middle East has once again become the focal point of a rapidly evolving geopolitical landscape. And even though investors are coming and the opportunities are there, no one knows when a new equilibrium will be reached, what it will look like, or how it will affect the rest of the world. However, the rush for East Mediterranean energy supply is on. The sheer size of this undertaking demands significant resources, and the complexities involved are unforgiving to all but the most meticulous planning and preparation. From environmental concerns to local, regional, and international market conditions, the hydrocarbon business offers countless challenges on multiple levels (engineering, financing, safety, ethics, etc.), and as far as Lebanon's record is concerned when it comes to large projects, it is not encouraging.

Where does the real potential lie with the Lebanese energy reserves?

Since the recent discoveries both in Israel and Cyprus, Lebanon's offshore has been determined as petroliferous and likely to have very promising hydrocarbon prospects. The U.S. Geological Survey estimated that the Levant Basin - the Eastern Mediterranean waters shared mainly by

Israel, Cyprus and Lebanon - contains 3.45 trillion cubic meters, or 122 trillion cubic feet, of recoverable natural gas. It also estimates that about 1.7 billion barrels of oil are recoverable.

What are the main challenges that could undermine the development of resources in Lebanon?

Governance and transparency. The importance of official transparency cannot be emphasized enough, particularly after the gas reserves are tapped and begin to generate revenue. The usual method of erecting yet another Potemkin ministry/body will simply not do this time. Lebanon has opted for a relatively transparent process for allocating its offshore blocks and should keep it this way. Strong governance, an anti-corruption framework, non-discriminatory treatment of bidders are paramount and will benefit the country as a whole.

What are the legal and fiscal risks for investors?

Unfortunately, the government has not passed the by laws regarding the fiscal regime nor the legal, but it is expected in 2013.

Are you hopeful that the potential discoveries would take Lebanon out of its energy deficiency and burdening debt?

The future of Lebanon's oil and gas sector looks bright, and the ambitious schedules put forward by the Lebanese Government can only add further encouragement, but only if sufficient effort and expertise go into the designing and laying of a proper foundation. It is crucial for the government of Lebanon to find and follow a sound and workable example of how to initiate and sustain this all-important national venture. The model should meet the usual best-practice standards applied to oil and gas elsewhere, of course, but it should also take into account Lebanon's less-than-ideal conditions in terms of both domestic and regional politics.

Will political instability in the region have an impact on foreign investment?

Absolutely yes. The entire Eastern Mediterranean is sitting on huge untapped oil and gas reserves in a part of the world riddled with conflict and undergoing major changes. External powers' interests collide in the Mediterranean as each tries to secure regional influence. Cyprus remains divided since 1974 and tensions have been rising between Turkish Cypriots and Greek Cypriots intensified further since the discovery of the Aphrodite gas field in Cypriot waters. Recent talks about reunifying the island did not come to fruition. Turkey's stalled EU candidacy is an additional factor of instability. Turkey began accession talks with the EU in 2005, but progress has halted since, picking up again in recent weeks as senior European leaders called for a fresh push for negotiations, drawing positive responses from Ankara. Recent visits among Athens Officials and Ankara will further improve relations between the two countries. As for the North African countries, they are still going through the chaotic transition towards democracy, whilst Syria remains paralyzed by its continuing civil war. The absence of a clear energy policy adds up to those political instabilities increasing the political risk for international and national oil companies interested in participating in oil and gas projects in the region.

How do similar discoveries in Israel and Cyprus affect Lebanon's plans?

The gas discovered offshore the Eastern Mediterranean neighbors will satisfy domestic demand, achieve energy security and is likely to be exported to European markets.

What role will Cyprus be playing in the development of hydrocarbon resources offshore the Eastern Mediterranean coast?

Cyprus will play the role of an exporter and an ideal energy hub for the East Med region. The island of Cyprus has blazed a very useful trail. Like Lebanon, Cyprus is hampered by factors like a reputation for exploitation, a lack of internal cohesion and problematic foreign relations (a third of the island, for instance, is occupied by an outside power). In response, the dedication and thoroughness with which the Cypriot government has formulated and begun to implement its energy policy have been especially impressive.

Do you believe that the maritime border conflict between Israel and Lebanon could delay Lebanon's activities further?

I believe that the Lebanese government can start immediately with Exploratory Wells campaign.

When do you envisage that Lebanon will start extracting and making use of the gas?

I am hoping that this will take place in 2015.