



المركز اللبناني للدراسات
The Lebanese Center
for Policy Studies

Search LCPS
Join our mailing list
f t

Newsletters



Number 11 Dec 2012- Jan 2013



Number 10 Oct-Nov 2012



Number 09 Aug-Sept 2012

Useful links

Associations incubated by LCPS

Government agencies

International agencies and organizations

Setting the agenda

Share 2 Tweet Share

August 25, 2013

LCPS and LPA Launch a Policy Dialogue with Experts to Consult over the Oil and Gas Sector

Roundtable Discussion Series

The LCPS and the LPA discussion group recommend six actions to develop the petroleum sector:

- The government must approve the two decrees as soon as possible so the bidding process is not further delayed
- There is a need to develop a mechanism to monitor the costs incurred by International Oil Companies once the exploration begins
- The government must estimate the domestic energy needs for the next 20 years so it can use this as a basis for negotiation with international oil companies
- The government must develop health and safety regulations
- The government must develop an industrial plan to encourage the creation of a new energy intensive sector to create jobs
- There is a need to reform the educational institutions to further develop human resource skills

The Lebanese Center for Policy Studies (LCPS), in collaboration with the Lebanese Petroleum Administration (LPA), held a closed roundtable discussion on developing the petroleum sector in Lebanon on Thursday, 25 July 2013, at the Crowne Plaza, Beirut, Lebanon. The meeting was co-chaired by Mr. Walid Nasr, member of the LPA board and head of the Strategic Planning Department and Mr. Sami Atallah, Executive Director of LCPS. Among the 20 participants were 5 members of the petroleum administration, international experts, academics, civil society activists, and international organization representatives.

Dr. Bassam Fattouh, Senior Research Fellow at the Oxford Institute for Energy Studies and Research Fellow at LCPS, opened the discussion with a macro overview of the opportunities and challenges facing the East Mediterranean. This was followed by a presentation from three LPA members - Mr. Wissam Chbat, head of the Geology and Geophysics Department, Mr. Assem Abu Ibrahim, head of the Quality, Health, Safety, and Environment Department, and Mr. Wissam Zahabi, head of the Economic and Financial Department - who shared with the audience what they have achieved so far and what the plans of the LPA are to develop the petroleum sector. Following the presentations, Mr. Kamal Hamdan, Director of the Consultation and Research Institute, commented on the presentations.

The key issues that were highlighted are as follows:

The size of the Levant basin is modest compared to other countries. As of 2011, the proven reserves in the East Med rank 19th after those in Libya, Azerbaijan, and India. However, this may change once extraction begins.

There are considerable economic opportunities to export the gas. The demand for gas in the MENA is rising; in fact it increased six-fold from 3.8% of world demand in 1980 to 10.8% in 2011, providing ample opportunities for regional exports. This demand is not confined to non-GCC countries. In fact, except for Qatar, many GCC countries are expected to be gas importers within the next 10 years.

Although geopolitical factors will influence monetization options and direction of gas trade flow, local factors will play a deciding factor. Pricing policies, institutional capacity, and political stability will be key determinants in optimizing the use of gas.

Lebanon has taken steady steps towards developing its potential reserves. It has conducted extensive 2D and 3D seismic surveys which reduce the resource risk as well as speed up the process of extraction. It has passed a hydrocarbon law which provides a framework for governing the sector. The appointment of the LPA members and their ability to efficiently manage the pre-qualification process has added credibility to the process.

The failure of the government to pass decrees will derail the process. The failure of the caretaker government to pass crucial decrees, - the exploration and

production model agreement, tender protocol, and the block delineation - needed so that the bidding process to continue in a timely fashion, will have serious ramifications on Lebanon.

Significant risks may prevent Lebanon from capitalizing on its potential resources. In addition to the regulatory challenges, there are considerable risks that may prevent Lebanon from capitalizing on its resources: for one, resource risk is real where proven reserves could be much lower; two, there is a significant commercial risk as a result of high cost of extracting the gas in deep water; three, the legal and security risks due to regional conflicts are not be discounted; four, the environment risks beyond spillover including health and safety is also a concern.

The sectarian political system is an obstacle to proper management of the gas proceeds. Under the existing political system where government priorities are governed by sectarian calculus rather than by socio-economic needs is unable to effectively manage the gas proceeds. This opens up room for waste, inefficiency, and embezzlement.

The discussion highlighted the following recommendations:

→ The government must urgently approve the two decrees - the exploration and production model agreement and tender protocol, and the block delineation – for the tendering process to proceed on time. Otherwise, the process will be jeopardized.

→ The government should develop a mechanism to control, monitor and audit the production of the hydrocarbons. For the government to maximize its profit, it must ensure that production costs are kept reasonably low. When building the financial and accounting procedures developed by the LPA, a competitive environment needs to be created so that costs are constrained.

→ The government must estimate the domestic energy needs for the next 20 years so it can use this estimation as a basis for negotiations with international oil companies. The government must project the local energy needs including those of newly created industries.

→ The government must develop health and safety regulations. Beyond spillover, the government must develop a waste management plan as well as an emission plan to deal with the consequences of the gas.

→ The government must develop an industrial plan to encourage the creation of a new energy intensive sector to create jobs. The surplus production should be used to create a petrochemical sector directed towards local and regional demand. This can create many jobs that the economy currently is failing to produce. It is recommended that Lebanon pays off its debt through job creation and economic growth rather than use the gas proceeds directly.

→ There is a need to reform the educational institutions to further develop human resource skills. Educational institutions must develop new curricula in order to produce the human capital necessary to fill these potential jobs. It is important that the educational system focuses on vocational training. This can contribute to limiting the brain drain that Lebanon suffers from and the current unemployment rate.

Furthermore, participants also concurred that political reform ought to be addressed so the gas proceeds are used effectively. The existing political system is unable to effectively manage the revenues since it is governed by a sectarian logic rather than by socio-economic needs. Failing to correct for that will lead to inefficiency and waste.

This roundtable is part of a series of discussion that LCPS and LPA are jointly holding on oil and gas issues.

LCPS

المركز اللبناني للدراسات
The Lebanese Center
for Policy Studies

Search LCPS

