

LEBANON PUSHES AHEAD

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When did it all start?

There is a potential for substantial offshore gas in Lebanese waters. The estimates are new and have only emerged in the last decade. However, Lebanon's interest in its potential hydrocarbon dates back nearly 50 years. In the late 1960s Lebanon started its first exploration for oil and gas, focusing however on onshore developments. In 1970, onshore wells were drilled across the country. The explorations were interrupted in 1975 by the Lebanese civil war. It's not until 2000 that the Lebanese government could focus again on energy, rightly shifting its attention to offshore oil and gas and signing in 2002 a contract with Spectrum Geo to carry out two-dimensional seismic surveys of offshore resources. Lebanon was finally on the right track and it's only in 2006 that the first 3-D survey is performed by Norwegian Petroleum Geo-Services. In 2007, Lebanon and Cyprus signed a maritime border agreement that is, to date, still not ratified. In 2010, the Lebanese parliament passes the Offshore Petroleum Resources Law (OPRL) and Lebanon submits simultaneously a unilateral maritime border demarcation of the Lebanese-Israeli borders to the UN. Unfortunately, maritime borders remain an issue to date and constitute the main obstacle that separates the Eastern Mediterranean energy-wealthy countries from the ultimate fruition. Despite the remaining handicaps, Lebanon has made good progress in its offshore explorations.

So, how much gas?

David Rowlands, CEO of Spectrum ASA (who carried out seismic surveys offshore Lebanon in its south west Exclusive Economic Zone), estimates there is up to 25 trillion cubic feet of gas in the Lebanese maritime EEZ. According to Gebran Bassil, Lebanon's Energy Minister, the eventual sale after extraction at the current price of slightly above USD 3 per thousand cubic would bring Lebanon USD 75 billion. This assessment, of course only approximate, could mean salvation to the Lebanese economy drained with the largest gross public debt in the Arab world equivalent to USD 55 billion and exceeding (by 175%) its annual GDP of USD 40 billion that is hit further by the conflict in Syria.

The gas potential is hence good news for the Lebanese economy and for the Lebanese people who are still deprived until today from the very basic right of having access to constant uninterrupted electricity supply due to a deficient and incapable infrastructure. Frequent blackouts are part of the life in Beirut while rural areas in Lebanon only have electricity twelve hours a day. According to the National, Lebanese power plants can only accommodate 60% of the country's electricity requirement.

An effective development of the Lebanese offshore hydrocarbons is therefore urgent. It has however been hindered by domestic obstacles. Yet, recent developments prove that Lebanon is

attempting to overcome internal divisions to attract international oil and gas companies and achieve a highly rewarding goal.

What is Lebanon doing about it?

Lebanon, still behind its neighbors Israel and Cyprus in the race to develop hydrocarbon reserves, approved Wednesday, at a weekly cabinet meeting, new bidding conditions for international companies interested in participating in the country's first offshore gas licensing round. Bloomberg said Royal Dutch Shell Plc, Cairn Energy Plc and Cove Energy Plc are among the companies that have expressed interest in bidding for a license. OAO Lukoil is interested and is holding talks on possible Lebanese offshore projects. A list awarding contracts will be issued by end of March followed by the approval of the EPA model in April and the formal bidding on May 2nd that will last six months.

In November 2013, the bidding will end; companies will submit their proposals and the Petroleum Administration will begin to evaluate the bids. The Lebanese government estimates to sign contracts with winning consortiums by March 2014. Extraction is expected in 2018.

The feasibility of the plan remains questionable. Delays, mostly of a political nature, are to be feared.

Where will the gas go?

The volume of the Lebanese findings is consistent enough to satisfy domestic demands for decades. The resources, if confirmed, are larger than required by the Lebanese market and will turn Lebanon into a natural gas exporter. One question remains to be answered: where will the gas go? The superstitious might dismiss the question, not wanting to jinx it before it happens; especially that the 'evil eye' is something we fear in this part of the world. Others might say, citing 'The Milkmaid and her Pot of Milk' by Jean De La Fontaine (moral: count not your chicken before they are hatched), that it is premature to discuss what to do with a gas that has not been extracted yet; but it isn't! It is extremely important that Lebanon thinks ahead of its export strategy in order to include from the start its future gas importers in its offshore hydrocarbon exploration. We know that neighbouring Israel and Cyprus have it figured out: it would make commercial sense if Israel built a pipeline to Jordan, Lebanon, Egypt and Syria but given the political situation of the region, it is not an option; Israeli gas is headed to Europe despite the high cost of the pipeline and Europe's falling demand (although Israeli nationalists wish to save all the gas for domestic consumption – which is unlikely to happen because it will negatively alter Israel's relationship with international oil and gas companies). Lebanese gas is most probably heading to a different direction. According to energy experts, Lebanon might be considering east-Asian markets given their growing energy consumption. Until we reach that stage, the road ahead is likely to be rocky.

What are the main concerns?

Numerous challenges need to be overcome before Lebanon becomes a significant hydrocarbon province.

An Unresolved Maritime Border Conflict

Lebanon is still technically at war with Israel. The unresolved problem of maritime border delimitation remains unarguably the biggest challenge the Eastern Mediterranean is facing. The disputed zone is of 527 square kilometres. Lebanon and Israel both claim ownership over a resource-rich area near Lebanon's southern border as a result of differing calculations of their respective EEZs (Exclusive Economic Zones). Beirut stated that the Leviathan, located 130 kilometres off Israel's coastline, is partly in the Lebanese EEZ.

The current situation in terms of the definition of the maritime borders is as follows:

- Maritime boundary agreement entered with Cyprus by Lebanon (2007) but not ratified by the latter
- Maritime boundary agreement entered with Cyprus by Israel (2010) and objection made by Lebanon to the UN
- Maritime boundary submissions from Lebanon and from Israel only considered unilateral proposals and not binding until an agreement between the respective countries

The situation is tricky. How can it be resolved? Israel and Lebanon have no diplomatic relations. Israel is not a member of UNCLOS, therefore Lebanon can't take the case to the UN since any ruling could not force Tel Aviv's hand - it is interesting to note that this case is very similar to China and Vietnam who have been granting licenses in the same area. Alternatively, mediation could be the only solution. Cyprus has recently offered a helping hand. The US has also been very active in assisting Israel and Lebanon in dividing their claims in an equitable manner.

Internal Lebanese politics

The estimated figures are attractive. But why is it that we are half-hearted? Is it too good to be true for a Lebanon that has become numb to good news after a history of permanent despair? The truth is, Lebanese fear that the exploitation of energy resources will be a new source of conflict between the country and its neighbours and internally between its main parties, the March 14 and March 8 blocs. Moreover, the ultimate challenge would be for Lebanon to remain unaffected by the Syrian conflict next door.

Wishful thinking?

The hydrocarbon offshore resources off the Lebanese coast are huge. In an ideal world, it is a great opportunity for Lebanon and its neighboring countries to find solutions to their everlasting conflicts. Their respective economies will be boosted as a result and the Eastern Mediterranean will become one of the world's major energy hubs offering investors and oil and gas companies a secure environment for wealth and prosperity.