

Reality sets in

After more than a year of waiting, Lebanon still sees no action on oil and gas exploration

ECONOMICS & POLICY January 12, 2015 by Matt Nash



Natural gas would boost the country's energy sector

The chances of Lebanon signing offshore exploration and production sharing contracts with oil and gas companies in 2015 are slim, but that does not mean that all work in developing the emerging sector will grind to a halt. New legislation is in the works on tax rates for oil and gas companies as well as onshore exploration and production, and the Lebanese Petroleum Administration (LPA) — a body with some regulatory powers that makes policy recommendations for the sector — seems determined to do as much work as it can despite the fact that decisionmakers are in no rush to pass the two decrees necessary to close the licensing round.

Momentum was building in early 2013, and it seemed like Lebanon was on the cusp of answering an important

The reality is that companies still cannot

economic question: what, if any, hydrocarbon resources does the country have? Parliament passed an offshore oil and gas law in 2010, opening the door to exploring for resources that seismic surveying suggests could be significant. However, for two years following the approval of the law, not much more happened. Then in late 2012 the government appointed the six member board of the LPA and developments began anew. The LPA drafted recommendations for a prequalification process for oil and gas companies interested in bidding in the first licensing round, and the Ministry of Energy — to which the LPA reports — approved the suggestions, as did the cabinet — which, according to the 2010 law, has final say on setting oil and gas policy in Lebanon. With all of the requirements approved, the LPA held a prequalification round for potential bidders between February and April 2013. A total of 52 companies applied, and 46 prequalified, including big international players such as Shell, Total, Chevron and ExxonMobil.

actually submit bids as the offshore blocks have not been officially delineated, nor have model exploration and production sharing agreements been approved

The plan — approved by the cabinet in December 2012 — was to open the first licensing round in May 2013, less than one month after the prequalified companies were announced. The LPA and the Ministry of Energy wanted the licensing round to close in November 2013 and envisioned contracts being signed in February 2014. While the ministry and the LPA held a day long event to celebrate the May 1, 2013, opening of the bid round, the reality is that companies still cannot actually submit bids as the offshore blocks have not been officially delineated, nor have model exploration and production sharing agreements been approved. The Ministry of Energy wrote decrees concerning these two issues in early 2013, based on a recommendation from the LPA, but the cabinet has still not approved them. Without the decrees, the licensing round is frozen. Former Energy Minister Gebran Bassil delayed the close of the licensing round three times, each time choosing a specific new date in the future. His successor and political ally, Arthur Nazarian, shifted tack when facing an August 14 deadline he set in April, and delayed the close of the round “to a maximum period of six months from the date of the adoption of the two decrees.”

On its website, the LPA estimates that, once the decrees are passed, companies will need “up to” six months to bid. After bids are submitted, the LPA estimates it will need “up to” two months to review the bids and “up to” another four months to negotiate and sign final contracts. At the longest, therefore, it will take a year between passing the decrees and signing contracts.

The impact of inaction

Oil and gas companies are notoriously media shy when it comes to discussing strategy and future investment

The delay in the bid round will affect competitiveness, resulting in less favorable

plans. Executive contacted the 12 international companies prequalified to act as operators in Lebanon's offshore, but not a single one agreed to an interview.

commercial conditions for the state

While some local news outlets have cited unnamed sources claiming that international players are losing interest in Lebanon, none have said anything publicly about their intentions to bid or not. That said, Wissam Chbat — head of geophysics and geology at the LPA — told Executive in August that “the delay in the bid round will affect competitiveness, resulting in less favorable commercial conditions for the state and diminishing Lebanon's regional presence and position in the regional gas market.”

Delays have had an impact on the local commercial conference market. The Lebanon International Petroleum Exhibition and Conference and the Lebanon International Oil and Gas Conference — both sponsored by the Ministry of Energy and the LPA — as well as the Lebanon Oil and Gas Summit — an event first held in 2013 without the input of the Ministry or the LPA — were cancelled in 2014. Instead, the LPA organized “Lebanon Petroleum Day” in October, which Middle East Strategic Perspectives, a local consultancy focused on oil and gas in Lebanon, described as having “[drawn] a large crowd, but few companies.”

New sector, new laws

In January 2014, LPA president Nasser Hoteit announced via Twitter that the body had written a new tax law for the sector and “transmitted [it] to competent authorities for review.” That was the year's only news on the tax law, but existing Lebanese legislation says the Ministry of Finance must propose new taxation rules. It is unclear how closely the two are working together on the issue, but amending the tax law is an LPA priority. Taxes will be a component of state revenues from the sector, and as the corporate income tax is today capped at 15 percent, the LPA is pushing to have that rate raised for the oil and gas sector, as is common around the world. Whether a new tax law for the sector will see the light of day in 2015, however, is an open question.

Also on the LPA's legislative agenda is an onshore exploration and production law as the 2010 law deals only with offshore. Again, the LPA wrote a draft law and began sharing it with relevant ministries in 2014, but it is unclear when parliament will begin discussing the draft. At the Lebanon Petroleum Day in October, LPA board member Gaby Daaboul briefed attendees on the LPA's draft of the law. The onshore draft law, he said, would allow single companies to bid for licenses, unlike the offshore law, which requires at least three companies to bid together in a consortium for each license. Daaboul said the draft onshore law would also create a special committee to compensate landowners whose property would need to be expropriated if commercially recoverable hydrocarbon discoveries are made.

Focus on education

While 2013 saw new oil and gas engineering programs launch at some of Lebanon's major universities, the LPA in 2014 turned its attention to vocational training. The LPA told Executive in October that the Lebanese University, the country's public institution of higher education, would soon sign an agreement with an

unnamed European institution to "train technicians in several upstream trades and to deliver degrees and certificates internationally recognized" by the industry. LPA President Nasser Hoteit reiterated that commitment at Lebanon Petroleum Day, and while he told Executive the initiative "will be announced officially before the end of the year," no such announcement had been made by the time Executive went to press. When oil and gas activities do actually start in Lebanon, the country will need a large pool of skilled and semi-skilled laborers since the exploration and production sharing agreements as currently drafted call for international companies operating in Lebanon to have a workforce that is 80 percent local.

When oil and gas activities do actually start in Lebanon, the country will need a large pool of skilled and semi-skilled laborers

Protecting the environment

The LPA made a strategic environmental assessment for the oil and gas sector public in 2014, nearly two years after it was written. The assessment found, among other things, that Lebanon lacks baseline data on its offshore environment, meaning that if the data is not collected before drilling begins, it will be difficult for Lebanon to track the environmental impact oil and gas activities have. In response to this, the LPA announced at a media forum in early September that international companies that win rights to drill in any of the country's offshore blocks will first have to carry out detailed environmental assessments to establish a solid baseline before beginning any work, thus putting the work of data collection into the hands of the oil and gas companies.

Uncertainty continues

While the LPA is working to do what it can behind the scenes to prepare for an oil and gas industry, most progress is still subject to political approval. Despite the fact that Bank Audi, one of Lebanon's largest banks, declared in early 2014 that Lebanon has upward of \$600 billion in gas wealth, the truth is that no one will know for sure until wells are drilled and resources discovered in commercially recoverable amounts. If 2013 was a year for hope in the emerging oil and gas sector, 2014 was the year Lebanese reality set in. As the year ends with a parliament again having extended its mandate and a void in the presidential palace, there may well be more important issues to address in 2015 than the search for hydrocarbons and the wealth they promise.



Matt Nash

Matt is Executive's Economics & Policy Editor. He has been reporting on Lebanon and regional issues for seven years, particularly specializing in oil and gas, politics and legal matters.