

Should Lebanon found national oil company?

Matt Nash

She's the first to admit the idea is controversial. Valerie Marcel, an associate fellow at Chatham House, argues that emerging market countries new to exploration and production of oil and gas should look not to international best practice, as they are typically advised, but rather aim "for more appropriate practice, taking account of the national context."

Marcel heads the "New Petroleum Producers Discussion Group" at Chatham House. The group brings together 25 countries — including Lebanon — to "enhance the capacity of emerging oil and gas producers to establish context-appropriate rules and institutions for good governance of their petroleum sectors and to engage credibly with international partners," according to its website. Al-Monitor sat with Marcel on the sidelines of a May 26 forum discussing oil and gas in Lebanon to talk good governance and get a bit of her insight on a local debate concerning if and when to establish a national oil company (NOC).

The text of the interview, edited for clarity, follows:

Al-Monitor: One argument being made in Lebanon in favor of establishing an NOC now (before the first licensing round and well before the country has confirmed whether or not it actually has exploitable offshore oil and/or gas resources) is that the three pillars of any country's oil and gas industry are a ministry of oil, a sector regulator and an NOC. Do you agree?

Marcel: Well, no. I think the technical advisers that come from the World Bank or the IMF or even Norway would say rather the pillars are a regulatory agency and a ministry of energy. You don't need an NOC per se; that's really something that you do for more of a ... there are a variety of objectives, but I think the top one is state control of the resource. You know, ensuring that you have state participation, that your country is meaningfully involved in the development of your resource. That's why you create an NOC. There are other reasons, but I think that's really the most important one.

The best practice is this idea of the ministry taking care of policy and the regulator taking care of regulations. But in fact what you find is in an emerging producer context you have to concentrate responsibilities because you don't have a clear idea of the scale of your resources. You don't know how big your oil sector is going to be or gas sector and you don't know what your timeline is. You don't know for how long you'll be producing. So you have to be cautious and build your capacity slowly because you could be putting in place a best practice system and then it not be needed because you don't have the nature of discoveries that you had anticipated. You wasted public funds and scarce resources.

Al-Monitor: In a recent paper you published on the topic of NOCs in emerging producer countries, you note that prior to a discovery NOCs can be a financial drain for a country because staff has to be paid.

Marcel: Yes. It's a drain on state resources up until production even. Because even post-discovery, you can turn to financial markets so you have that way of raising finance because you can use your resource as collateral. ... It has to raise finance to meet its share of the cost of development of the discovery so you do have to turn to financial markets for that.

Al-Monitor: Lebanon's offshore oil and gas law says the country can establish an NOC, but only after a discovery. What did you think about that article in the law?

Marcel: Well, when I saw that in the law I thought it was very prudent and very grounded. I thought it was an excellent approach ... to wait and see what we have before committing to building a national oil company. And I think that ... in the Lebanese context in particular I think it's really important to ... it's important not to create it too soon because I think many people have the wrong idea that it's going to be a moneymaker and that it can employ a lot of people — where in fact it's going to be a cost center and it's going to be paid for out of the state budget.

I've studied many emerging producer countries in low-capacity settings where the ministry was in charge of the sector, where the NOC was in charge of the sector and where regulators were in charge of the sector. And what we found is that the ministry-led model is often not successful in a low-capacity setting because they don't have the higher salaries, because they don't have the distance [from] government because they're not like a separate unit — they're really within the government, you know, so they're too close to government. They tend to be too politicized and

too involved in daily business of government, whereas the regulator and an NOC can be a little more like they can develop their corporate culture, which the LPA [Lebanese Petroleum Administration] is doing, and the NOC does that too. And so if that's the corporate culture, that's professionalism, efficiency, excellence, and it really means that you're going to build capacity and competence quicker. But many regulatory agencies that are established like the LPA in a low-capacity setting fail and become the posse of mainstream because they're not strong enough to resist like what you call regulatory capture, where basically, you know, like in the United States, the US regulators were wined and dined literally by the oil companies and they didn't have the distance [from] the oil industry to be able to be really effective regulators. So I think in Lebanon the LPA's established itself very credibly in a very short amount of time, so it's extremely encouraging.