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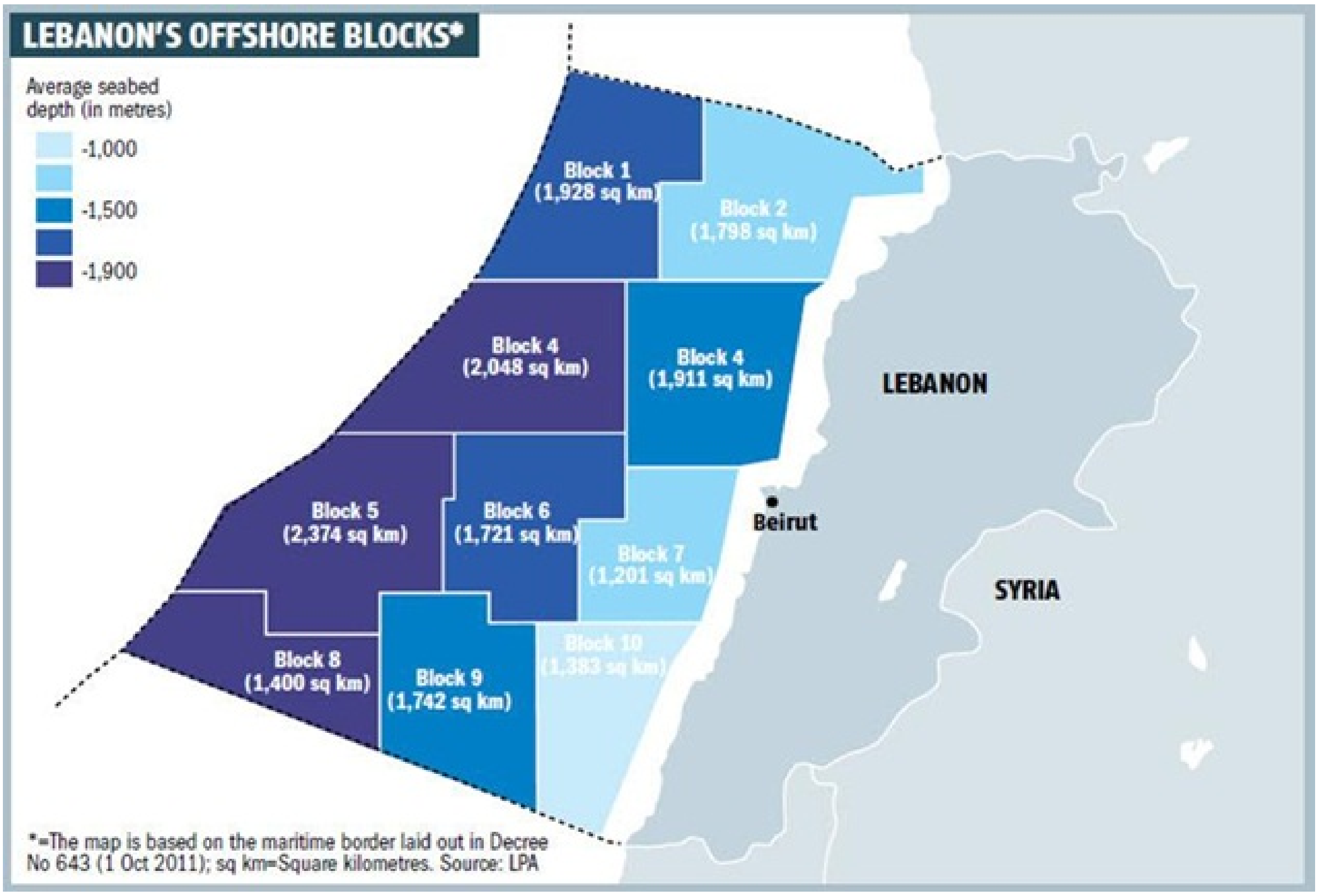
Lebanon's energy plans continue to falter

11 May 2015 11:47 GMT | By Wil Crisp



Political paralysis is stalling progress towards Lebanon’s first oil and gas exploration licensing round

On 2 April, Lebanon’s parliament failed for the 22nd time to elect a replacement for former president Michel Suleiman, whose term ended on 25 May 2014.

The failure comes amid an ongoing feud between various political factions and does not bode well for the country’s oil and gas ambitions, which have seen little movement for nearly two years due to the political paralysis. Crucially, plans for its first oil and gas licensing round, which the Lebanese Petroleum Administration (LPA) says could be transformative for the economy, have failed to move forward.

Lebanon currently imports more than 90 per cent of its energy needs, which is a huge drain on government revenues.

“The absence of a president is making it harder for a major breakthrough, but the political problems blocking progress go beyond the presidency,” says Sami Atallah, director of the Beirut-based Lebanese Centre for Policy Studies (LCPS). “Whether or not the current government has the will or the capability to approve the necessary legislation is a big, unanswered question.”

Untapped potential

Over the past few years, high-profile discoveries made in the Mediterranean by Cyprus and Israel have raised expectations about the prospect of large reserves in Lebanese waters.

Based on seismic data, Lebanon's petroleum ministry has estimated that there is the possibility of 95.9 trillion cubic feet of gas and 865 million barrels of oil in just a portion of the country's territorial waters. However, the existence of these reserves can only be verified by drilling, and this may not occur for some time to come.

In 2011, the government announced a time frame for Lebanon's first offshore oil and gas exploratory licensing round. Drilling contracts were to be awarded by the end of 2012 and it was forecast that production could start as early as 2017.

Significant progress was made over subsequent months, including the prequalification of 45 companies such as UK/Dutch Shell, the US' Chevron and Norway's Statoil.

However, work towards the bidding round came to an abrupt halt in mid-2013, after the resignation of Lebanon's cabinet, which was announced by Prime Minister Najib Mikati on 22 March.

Since March 2013, there has been little progress and there is currently no fixed date for the bidding round to open.

Key fact

Lebanon currently imports more than 90 per cent of its energy needs

Source: MEED

At the time of the cabinet resignation in 2013, two key decrees necessary for launching the bid round still required government approval. One decree delineates the 10 offshore blocks to be offered and the other outlines tender protocol and the framework for exploration and production agreements.

A new government was formed 10 months after the collapse of Mikati's administration, in February 2014, but continuing tensions between Lebanon's various political factions and the related political paralysis have meant both of the decrees remain unapproved.

Committee failure

Two months after it was formed, the new government, led by Prime Minister Tammam Salam, set up an oil and gas interministerial committee to review the work that had been done so far and push the country's hydrocarbons plans forward, but it has failed in this endeavour. After four postponements, the LPA indefinitely delayed the bid round in August 2014.

The failure of the interministerial group to produce results over its first year has met with criticism from some analysts and officials who have accused the committee of stalling for time.

"The [LPA] has dealt with all the committee's queries," says one official connected to Lebanon's oil and gas sector. "Although publicly politicians say they want the bid round to go ahead, nothing has happened and there have been no reasons given for the delays."

Atallah agrees that the problem lies with the government rather than the LPA, which was formed in 2012 as a regulatory body in charge of managing the oil and gas sector.

"The LPA has done its homework and frankly, compared with other government agencies in Lebanon, it has been quite open to discussing these issues in public," says Atallah. "When it comes to the interministerial committee on the other hand, we feel it is duplicating the work of the LPA and has yet to contribute to the process in any meaningful way."

Lebanon's Finance Ministry, which is part of the interministerial process, was contacted by MEED and declined to comment on these criticisms.

Purposely stalling

The reasons for Lebanon's politicians delaying the bid round are unknown. Some analysts suggest that, due to the fragility of the governance system, the country's powerful political parties are afraid to address subjects that have the potential to increase tensions.

Other analysts say the political parties are stalling until they gain a position where they will see maximum benefit from the emergence of the oil and gas industry.

"Both sides are trying to buy time until entities related to them are in a position to benefit; we're not just talking about taking credit and gaining politically, but actually benefiting financially through corruption," says Mario Abou Zeid, a research analyst for the Beirut-based Carnegie Middle East Centre. "There is a complete disagreement between all political players regarding who benefits most from this and, whoever prevails, it will definitely not be the state or the state institutions."

Atallah agrees that political players who are attempting to benefit financially from the process could be slowing down the bid licensing process. "The political parties want their figureheads to be well-positioned to receive credit for this when things start moving," he says. "They may want to also position themselves to potentially participate in the actual process and benefit financially from the sector."

Political involvement in corruption linked to the hydrocarbons sector has not been proven, however, and legal proceedings have been initiated by Foreign Minister Gebran Bassil against the Lebanese magazine Executive, which accused him of holding inappropriate meetings with energy companies during his time as oil minister.

Rapid progress

Although the remaining decrees that are needed to set the oil and gas bid round in motion are unlikely to be approved in the near future, once they are passed, progress in Lebanon's oil and gas sector is expected to be rapid.

The LPA has already set out a time frame that will see licences awarded within 12 months of the date that the decrees are adopted. For potential explorers, a huge amount of seismic data is already available for analysis, with 2D data available for the whole of the country's offshore territory.

A total of 75 per cent of the offshore region is also covered by 3D seismic data, something the LPA says will speed up exploration.

The legislation that has already been approved has been praised by independent experts. It favours local oil services contractors, which analysts hope will quickly foster a robust oil services industry in the country.

The LPA has outlined that a minimum of 80 per cent of the hired human resources should be Lebanese, and 5 per cent and 10 per cent advantages have been provided for the Lebanese suppliers and service sub-contractors respectively.

Provisions have been made for a sovereign wealth fund that will be under independent supervision and could be used to fund improvements to social services.

Additionally, Lebanon is already connected to the Arab Gas Pipeline, which could be used to export gas to Syria, Jordan and Egypt.

Transformational impact

Action to speed up the approval process would certainly be welcomed by the LPA, which believes Lebanon can transform itself from an energy importing nation to a net energy exporter within a matter of years.

The LPA says this will be transformational for the Lebanese economy, creating jobs, bringing in export revenue and supplying domestic power stations with cheap gas, which will reduce spending on fuel subsidies.

For now, however, some analysts, including Carnegie Middle East Centre's Abou Zeid, believe that continued stalling could be the best thing for Lebanon's economy. "If any deal bargain is made, it is likely the political players connected to the deal will benefit most from the processes; the state institutions will be the biggest losers," says Abou Zeid.

"For the time being, the lack of a gentleman's agreement between the various political parties is actually benefiting the state and protecting the wealth that we have in our offshore territory."

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