

# Can Bassil go it alone?

## Caretaker Minister making moves as cabinet formation stalls

By [Jeremy Arbid](#) on February 05, 2014

- On January 8, caretaker Minister of Energy and Water Gebran Bassil again delayed the first licensing round for offshore oil and gas exploration — perhaps the biggest hope for Lebanon's static economy. The reason was the same as the two previous times it had been delayed since September — two decrees need to be signed to allow the round to move forward. Political infighting has prevented the cabinet meeting to do so, thus Bassil has been forced to keep pushing back the bid.

But while this was old ground, this time there was a twist. Setting a new date of April 10, Bassil was adamant that “the [new] deadline is a final one.” He did not specify exactly what he meant by this, but this ambiguity has led some to interpret that if a cabinet has not been formed by April the minister will attempt to push through a move without the necessary decrees.

How far he could get without full cabinet approval is unclear. He certainly could not finalize any deal, as Lebanon's 2010 Offshore Petroleum Law explicitly declares that any final agreement must be passed by decree. This procedure is supported by Article 89 in the Lebanese constitution which states: “No contract or concession for the exploitation of the natural resources of the country... may be granted except by virtue of a law and for a limited period.” [Carole Nakhle, an energy economist at the Surrey Energy Economics Centre, explained, “the Offshore Petroleum \[Resources\] Law plainly states that the decrees should be approved by the Council of Ministers.”](#)

What Bassil could do, however, is start to negotiate with companies on the basis of the model Exploration and Production Agreement (EPA). One of the two pending decrees declares the terms for the final EPA — the agreement between oil and gas companies and the government. But while the terms are not finalized, Bassil can begin negotiations working on the assumption that the model will form the basis for the final EPA.

An industry source, speaking on the condition of anonymity, said, “You can actually move along, and indeed it is common in resource-rich countries for terms to be agreed before formal regulations are passed approving these terms.” But, he stressed, companies will be reticent unless they are given assurances “that these are the final terms and that there won't be a complete redraft.”

### Dangerous precedent

Experts warn that moving forward without the decrees and the cabinet's blessing is a precarious move. Oil companies are aware of the risk of investing in Lebanon's offshore gas. However, as Mona Sukkarieh — co-founder of Middle East Strategic Perspectives, a Beirut-based political risk consultancy specializing in oil and gas — explained, “companies don't like to operate on shaky legal grounds if their rights and licenses run the risk of being questioned at a later stage.”

These repeated delays continue to frustrate participating companies, particularly the largest companies in the bid, many of whom had only a skeleton presence at the Lebanon International Oil and Gas Summit in December.

However, these companies have experience operating in unstable political environments and have calculated Lebanon's country risk into their strategic plans. A company's decision to participate in a licensing round "is a strategic decision that is not reconsidered if a tender is temporarily delayed. Of course, this does not mean that the Lebanese government should keep testing their patience," Sukkarieh explained.

### **The need for speed**

In many ways Bassil is correct in demanding a final deadline — time is a factor for at least two reasons. In the face of political negotiations, the projected year in which Lebanon is supposed to become a gas producer, 2020, will surely be pushed back. By the next decade new sources of gas will be available in the global market. Israel has already started gas production and rumors of a proposed pipeline to Jordan are circulating. Globally, the United States, Australia, India, Canada and Indonesia are set for big increases in gas production, while regionally both Iran and Qatar are due to expand their output rapidly.

AT Kearney, a global management consulting firm, is forecasting that over the next decade, the surplus of supply will cause gas prices to fall. One of their primary indicators is gas import infrastructure, which is undergoing rapid expansion for both pipeline and liquefied natural gas, with much of this growth occurring in the Middle East. The World Bank expects prices in Europe and Asia to fall by around 10 percent in the next decade while the International Energy Agency anticipates a 30 percent decline in prices by 2020.

All this means that by the time Lebanon starts extracting, gas reserves lying offshore may not be as valuable as they are currently estimated. Thus the sooner Lebanon moves forward, the better.

### **The old enemy**

The second reason that time is key involves the maritime border dispute with Israel over 873,000 square kilometers believed to be rich in resources.

The United States has been an active partner in resolving the border dispute, with multiple visits by high-ranking American officials. US Deputy Assistant Secretary for Energy Diplomacy Amos Hochstein visited Lebanon in November 2013 to push for a deal, meeting with several leading political officials including caretaker Prime Minister Najib Mikati, Speaker of the Parliament Nabih Berri and Bassil.

By some accounts Hochstein proposed a compromise for the dispute during his visit. According to a recently published news release by Alem & Associates, a legal firm representing oil companies bidding in the licensing round, the proposal "consists of setting a maritime blue line area between both countries in which the disputed zones will remain unexploited." In general, the proposal prescribes freezing any exploration and exploitation activity in the disputed area until a permanent solution can be found.

But Lebanon's political infighting may be strengthening the Israeli government's position. Reports from Israel have indicated that Tel Aviv has rejected the compromise put forward by the Americans, perhaps a sign that Israeli leaders are feeling increasingly confident in the face of the Lebanese government's inaction. Similarly the Israelis have a new gas exploratory site, the Karish well, with reserves estimated at up to 2 trillion cubic feet, approximately 20 kilometers south of Lebanon's border claims.

It's another promising find for the Israelis, who grow more concerned about their ability to protect offshore gas installations. In fact, the Israel Defense Force (IDF) is requesting nearly a billion dollars to fund operational costs for large patrol vessels, extended surveillance and intelligence capabilities, and unmanned aerial vehicles (UAVs). This allocation would be in addition to the recent acquisition of two state of the art German frigates that are bound for patrol of their Exclusive Economic Zone waters.

Each passing day provides less incentive for mediators such as Hochstein to help Lebanon retain its territorial waters — enabling Israel to move closer toward claiming parts of the disputed zone. As Malek Takieddine, an oil and gas lawyer representing companies preparing to bid in Lebanon's first licensing round, explained, "You might see Israel granting licenses or permitting certain operations near or inside the territories claimed by Lebanon. If this occurs, it might be also coupled by military protection."

### **Moving Forward**

Those wishing to move Lebanon's oil and gas sector forward are faced with two unenviable options — back the caretaker energy minister to move ahead without the support of the government, or wait for the formation of a new government. On the latter, there have been a few positive signs in recent weeks that suggest the wait may be coming to an end.

Despite the continued delays and political bickering surrounding the petroleum file, technical work at the Ministry of Energy and Water and the Petroleum Administration (PA) continues. The PA — the six-member body charged with running Lebanon's oil and gas sector — has recently drafted both an Onshore Petroleum Law and a Petroleum Tax Law, posted advertisements for employment opportunities, begun soliciting tenders for the next government-backed oil and gas conference, and has been coordinating a series of roundtable discussions and dialogues with local policy experts. According to Nakhle the PA has performed its duties with a level of professionalism not typical to Lebanese bureaucracy. "Various departments in other relevant ministries, like finance, environment and economy, should also be working at the same speed and getting themselves ready," she added. Perhaps this new efficiency could start with the formation of a new government. Then the country could move forward in the right way.