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Lebanese gas to enter crowded market

By Lysandra Ohrstrom

BEIRUT: Even if Lebanon manages to overcome domestic obstacles and begin producing natural gas from its potential offshore hydrocarbon reserves, seismic shifts in the global energy market may forestall its dream of becoming an energy-exporting nation.

International experts at the Oil and Gas conference in Beirut warned the country to moderate its expectations in light of the vast quantity of natural gas that will come on the market over the next two decades.

Australia, for example, will expand its gas supply from 25 million tons per year to 88 million tons per year between 2015 and 2020. The U.S. is expected to produce an estimated 230 million tons of gas over the next decade, effectively doubling the global gas supply and making it the largest net energy exporter in the world by 2017.

The advent of new technologies to exploit commercial shale gas has created a global energy revolution that will transform the Eastern Mediterranean, said Lord Howell, a former British energy minister.

Shale is present in massive quantities in the Ukraine, China and Indonesia, and the U.S. and Canada will be exporting gas from this source by 2015. Meanwhile, some believe Saudi Arabia will be importing gas by 2030 if its current energy subsidy program is not altered.

"In Lebanon's case the revenues from gas [lie] somewhere ahead ... and these depend on the market conditions prevailing [during] this period," Howell said. "Within five years the world will be filled with new sources of gas ... Gas supply will be up but so will demand. It's not going to be a world in which you charge anything you want for gas."

"The shale revolution, first for gas and then for oil, has really caused fundamental changes in both markets that we cannot ignore," said Carole Nakhle, an energy economist at the U.K.'s Surrey Energy Economics Center.

"We are moving to a more flexible gas market ... Oil indexing and long-term contracts are eroding," she said. "I think for a country like Lebanon, they are going to have difficulty finding buyers [with this pricing mechanism] and if they do, they won't be sustainable."

There appeared to be a consensus among attendees and panelists that the arrival of large quantities of U.S. and Australian natural gas would dramatically alter the dynamics of the energy market. But some believe a projected upsurge in demand from Asia will offset any downward

pressure on pricing that might occur.

Michael J. Economides, editor of the Energy Tribune news outlet, said China aimed to meet 10 percent of its annual energy consumption with natural gas by 2020, compared to just 4 percent today. This means Chinese demand for natural gas will effectively quadruple in less than a decade.

While the \$15-per-unit price that Qatar and Australia sell gas at may be unsustainable in the long run, Economides believes that within three years the price will level out at \$8 per unit.

He dismissed fears that the global market will be oversupplied by then as “complete and utter nonsense.”

“Here’s the gist of it. China, China, China,” Economides told The Daily Star. “Local demand for natural gas in Lebanon is like a Volkswagen, while Lebanon’s potential for exporting gas is like two tractor trailers.”

Whatever the global market looks like in 2020, there are lessons Lebanon can learn from the Norwegian model, according to Svein Aass, Norway’s ambassador to Lebanon.

Norway first discovered its energy resources in 1961 and has since grown to become the third-largest gas exporter in the world.

Norway did this by developing the national company Statoil and attracting international investors, while charging a high tax of 50 percent in addition to the regular 28 percent corporate tax rate. The state also took a substantial ownership stake in petroleum resources.

Since then, gross domestic product per capita has grown to \$100,000. Norway now benefits from having 95 percent of energy consumption from hydroelectric sources so almost all its oil and gas can be exported.

Aas gave Lebanon four pieces of advice to follow in order to have a similarly positive outcome. “First, do not sell the skin before you have killed the bear. In other words, all the geological surveys in the world cannot substitute for actual drilling and exploration,” he said. “Second, don’t give up. As technology will evolve, so will discovery.”

He urged Lebanon to use gas revenues to develop other economic sectors and to adopt a fiscal rule similar to one Norway passed in the ’90s.

The rule said the state could only allocate 4 percent of energy revenues to the budget to protect Norway from the vagaries of the international market.