

# THE DAILY STAR

LEBANON

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## Oil bid delay not a crippling blow

By Mohamad El Amin

BEIRUT: An extension by Lebanon of a key deadline for its first oil and gas licensing round may be a setback, but it's not the death knell for the endeavor nor is it an uncommon occurrence in the field, experts say.

The Energy Ministry last week pushed back the deadline to submit bids for the offshore licensing round from Nov. 4, 2013, to Dec. 10, 2013, after officials failed to agree on an exceptional session needed to pass two decrees necessary to launch the bid.

It remains unclear whether the government will be able to soon pass the two decrees, which delineate blocks, establish production sharing terms and specify tender protocols – all prerequisites for bidding.

“Of course, not meeting originally set deadlines sends the wrong vibes to international investors and can affect their confidence in government policy and as such their perception of risk is likely to increase,” said Carole Nakhle, Energy Economist at U.K.-based Surrey Energy Economics Centre. But “given the political developments in the Middle East more generally, and Lebanon more particularly, it would have been rather naive if international investors did not factor in that risk.”

Malek Takieddine, an oil and gas lawyer and partner at Al-Jad consultancy firm, told The Daily Star initial forecasts were that Lebanon's exploration could be delayed by at least a year as a result of the deadline's extension.

“The work done by the Energy Ministry and the Petroleum Administration has been very good so far and this helped improve investors' confidence levels to above what is average in Lebanon” he said. “But the delays [bring] confidence in the country [back] to low levels.”

Several experts echoed the view that oil and gas companies are aware of the political risks associated with investing in countries like Lebanon.

“Oil and gas companies are operating in every troubled corner of the world from Nigeria to Iraq, so political risks are well accounted for,” said a Lebanese industry source who declined to be identified.

The fact that drilling would take place offshore suggests security would be less of a concern as opposed to onshore drilling, the source added.

But others are less optimistic about the industry's ability to contain risk.

Mark Eshbaugh, an international analyst at the Energy Information Administration of the U.S. Energy Department, told The Daily Star delays in Lebanon were widely expected by the industry.

“While EIA has no specific knowledge on when the current licensing round will conclude, many energy analysts believe the process will be delayed due to a number of factors including the political and security environments at present,” he said in an email exchange earlier this month.

In a report authored by Eshbaugh and published last month, the EIA warned that despite the discoveries in the region, production prospects were poor in the short term.

“Offshore natural gas discoveries in the Levant Basin have the potential to significantly alter energy supply dynamics in the eastern Mediterranean region, however ... armed conflict, territorial disputes and macroeconomic uncertainty – could limit the viability of those supplies in the short term,” the report said.

The conflict in Syria and resulting weakness in the Lebanese and Jordanian economies will influence the scale and success of exploration activities negatively, the report added.

It added that the maritime boundary dispute between Israel and Lebanon also overshadowed the development of the sector.

The industry source told The Daily Star that Lebanon “has stood motionless” while Israel and Cyprus stepped up cooperation, which yielded an initial agreement on a liquefied natural gas plant in Cyprus.

The Lebanese Parliament never moved to ratify an agreement with Cyprus over the two countries’ maritime border, he said, making serious cooperation with the country impossible.

“This casts doubt on Lebanon’s potential to export natural gas, because [LNG projects could be very expensive] to develop alone.”

While pointing out that the Israeli-Cypriot project remains in initial planning, Nakhle agreed that the project might reduce the options for Lebanon to export its gas.

“But first Lebanon has to make a discovery to have a better understanding of its export capacity. Also we shouldn’t forget that there is a good potential for developing a domestic market for gas,” she said.

Lebanon should also improve the capacity of public institutions to manage the sector, not only in the short-term but for many years to come.

“The main challenges for Lebanon also include the lack of administrative capacity and expertise, and the limited coordination between key ministries,” Nakhle said. “And once serious revenues start to be generated, there is the issue of managing that new source of wealth, which can easily distort an already fragile situation.”