



## Energy ministry is new crown jewel

Expectations of profit and patronage may lie behind the fight to control the post



As Prime Minister designate Tamman Salam consults with the various political factions on the size, nature, and composition of his government, disagreement over who is to head the Ministry of Energy – given the great financial stakes involved – could delay the formation of this and future cabinets.

Lebanon hopes to enjoy windfall profits from offshore gas and oil reserves in the coming years, and the Minister of Energy will wield important influence over the sector. Potentially, this means it will become a prime patronage tool.

Progressive Socialist Party leader Walid Jumblatt highlighted the importance of whoever is to control the ministry late last month when he **told** the daily *Al-Akhbar* that allowing a member of Michel Aoun's Free Patriotic Movement to continue at the ministry's helm is unacceptable. Aoun responded by demanding that his son-in-law Gebran Bassil – who has been Energy Minister since November 2009 – retain the post.

The 2010 offshore oil and gas law “gives more or less significant discretionary powers to the minister of energy and water,” **said Carole Nakhle, an energy economist with the UK-based Surrey Energy Economics Center.** “And in that sense, whoever is controlling the ministry of energy and water will have a big say in the future of that sector and, as such, the future of the country.”

Indeed, while the law established a Petroleum Administration to regulate and govern the oil and gas sector, all of the body's decisions must first be approved by the Minister of Energy – who can alter or amend these decisions – before being approved by the entire cabinet.

In less than one month, Lebanon will begin what is arguably the most important phase of the development of any potential resources. It will start negotiating contracts with foreign companies to pinpoint and possibly extract its undersea riches.

The contract negotiation process slated to begin on May 2 starts with companies submitting bids to the government in order to win the rights to explore and possibly extract oil or gas, or both, from Lebanese waters. Ideally, the companies with the best offers will then enter into more detailed negotiations with the state before a contract is finally signed. The Ministry of Energy currently expects to ink deals by February 2014.

Mona Sukkarieh, an analyst with the Middle East Strategic Perspectives consultancy, pointed to Cyprus to explain why Lebanese politicians were so concerned about who controlled the Energy Ministry. She noted that last year, the Cypriot government at one point **chose to initiate deeper negotiations** with a consortium of companies that did not submit the best terms for the government when compared to its competitors.

“The fact that non-scientific criteria does exist allows certain manipulation/exploitation that may be motivated by personal considerations and not necessarily in the country’s best interests,” Sukkarieh observed in an email message to NOW. “Given the stakes, it can be said that he who controls the Ministry of Energy controls the oil and gas sector, and, if these resources are developed, [this] ensures a leading role in governing the country.”

Potential mismanagement of the sector is not, however, limited to negotiating and awarding contracts. An oil and gas industry brings with it both potential requirements that foreign companies hire a certain percentage of local workers and agree service contracts with Lebanese firms to support the industry (such as providing catering, housing and transportation, to name a few). This could allow a future Minister of Energy to press companies to hire his or her political clients or steer service contracts to his or her supporters.

“There’s definitely always a risk of this kind of mismanagement and favoritism,” **Surrey’s Nakhle** told NOW on the potential for patronage in the oil and gas sector. “In Lebanon, unfortunately, corruption is quite pronounced.”

She added, “The key to overcome [the potential for patronage] is to achieve transparency in everything, [including] in various contract allocations.”

A Ministry of Energy official recently assured NOW that exploration and extraction contracts will be public once signed and that transparency will be a guiding principle moving forward in the sector. That said, the jockeying for this ministry – which will only get worse if and when the horse trading to form a post-election government begins– is a worrying sign.