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Lebanon Pins Economic Hopes on Oil and Gas

By JOSH WOOD

BEIRUT — As Lebanon prepares to move toward exploring and developing its potential offshore oil and gas resources, the prospect is being dangled that hydrocarbon revenues could fix many of its problems.

In Lebanon's exclusive economic zone, the offshore area in which it retains rights over any resources, there is a high probability that a significant amount of gas and perhaps some oil could be found, according to Spectrum, a company that carried out a three-dimensional seismic survey of a 3,000-square-kilometer, or 1,160-square-mile, zone off the country's coast.

"In terms of the 3-D area that we surveyed, we believe there could be as much as 25 trillion cubic feet of gas," said David Rowlands, Spectrum's chief executive, referring to 710 billion cubic meters.

But he noted that "you never get to prove anything until you actually start drilling" and that drilling was not going to begin until 2015 or 2016, at the earliest.

A 2010 U.S. Geological Survey report estimated the presence of 1.7 billion barrels of oil and 122 trillion cubic feet of gas in the 83,000-square-kilometer area off the coasts of Lebanon, Israel, Syria and Cyprus, which is known as the Levant Basin.

So far, Lebanon has lagged behind its neighbors in the search for hydrocarbons beneath the Eastern Mediterranean's seabed.

The Tamar gas field, discovered off the coast of Israel in 2009, came online at the end of last month, while the country's larger Leviathan gas field is scheduled to begin production in the coming years.

Cyprus, hobbled by recent financial troubles, has signed deals with a number of international oil companies to drill for gas within its own economic zone.

After delays caused by political disagreements, Lebanon formed its Petroleum Administration late last year, enabling it to start negotiating. Major energy companies, including the U.S. giants ExxonMobil and Chevron and Total of France, are among 52 to

enter prequalification talks. The companies that qualify are expected to be announced Thursday, and the bid process is scheduled to begin next month.

Yet even without further delays, drilling and eventual production are still years away.

From an economic perspective, things can seem bleak in Lebanon. Shaky infrastructure irritates residents and dissuades foreign investment. Lebanon also has one of the highest ratios in the world of debt to gross domestic product; it is estimated to be about 128 percent for 2012, according to the C.I.A.'s [World Factbook](#). Furthermore, growth has been stalled by the civil war in neighboring Syria and by Lebanon's own bouts of instability.

Within that backdrop, potential oil and gas revenues are being touted by some as a possible magic bullet.

Across the country, billboards sponsored by the Ministry of Energy and Water have appeared along highways in recent weeks, promising a better future.

"Our country now has oil — for the development of the transportation network" reads one billboard, depicting a [high-speed train](#) marked with a cedar tree, Lebanon's national symbol. Lebanon has not had an operational rail network since the outbreak of the country's civil war in 1975.

Other signs suggest that energy revenues could bolster the country's army and health care system. The message is that hydrocarbons can bring modernization.

But without any actual discoveries yet, and without knowledge of how difficult extraction will be or whether Lebanon can export hydrocarbons, analysts say it is too early to count heavily on oil and gas.

"It's way too premature to start spending the money and start daydreaming about Lebanon becoming a hydrocarbon exporter, having fiscal surpluses like Kuwait and writing off our debt as some politicians have suggested," said Nassib Ghobril, the head of economic research at Byblos Bank, which is based in Beirut.

"They're just raising the expectations of people unnecessarily without any concrete evidence at this stage," he added.

Producing [natural gas](#) could potentially fix some problems, like Lebanon's chronic electricity shortage. Lebanon's power plants are so stretched that even Beirut's more upscale neighborhoods see government-supplied electricity cut for three hours a day. Outside the capital, power is even more sporadic.

Lebanon's power plants currently run on imported fuel. The state electricity company operates at a loss and blames its failings on empty coffers.

“The electricity deficit is costing the Treasury at least \$2 billion every year, and in 2012 it was much more, almost \$3 billion,” Mr. Ghobril said. “We shouldn’t be complacent about this.”

A domestic supply of natural gas could alleviate Lebanon’s electricity woes, although the country would first have to convert its power plants to use liquid natural gas and build an infrastructure to handle gas products, an expensive process.

But there are potential obstacles to exploring and developing the resources.

For one, Lebanon is in a period of transition after Najib Mikati stepped down as prime minister last month. Consultations are under way to form a new government, but the process has been slow as Lebanon’s divided politicians have continued to bicker.

A map delineating 10 offshore blocks to be bid on was submitted to Mr. Mikati’s cabinet for approval before he resigned. Now, approval of the blocks will have to wait for a new cabinet.

“There needs to be some assurances on the political level that there is going to be stability regardless of the change in governments,” Malek Takieddine, a Beirut lawyer who specializes in oil and gas, said.

There is also a fear that Lebanon’s raucous politics could find its way into the development program.

“I hope that the oil and gas sector will not be politicized, but I fear that this is likely going to be the case in Lebanon,” said Carole Nakhle, an energy economist based in London. “After all, most of our political figures have business interests in the country.”

The formation of the Petroleum Administration highlighted some of the inherent realities of Lebanese politics. Placating sectarian interests, the six seats of the Petroleum Administration were parceled out to Lebanon’s six largest religious groups, a reflection of the power sharing agreements underpinning the country’s governance.

Lebanon, meanwhile, has an undemarcated maritime border with Israel, a country it is technically at war with, and there is a sliver of sea that both countries claim as their own. If Lebanon offers to take bids on blocks that fall within the disputed zone, “it could seem aggressive to Israel and international parties,” Mr. Takieddine said. “So it’s a delicate decision that they need to make.”

Instability from the war in neighboring Syria, which has led to repeated bouts of violence in Lebanon and deepened the political divide here, could also affect the development of oil and gas resources. Analysts noted that many oil companies were used to working in

unstable environments. Still, “some of the oil companies are more conservative than others because of the security situation in the region,” said Mr. Rowlands, the Spectrum chief executive, “and I’m sure some oil companies aren’t going to play the bid round.”

The uncertain security and political situation could mean better terms for oil companies wishing to explore and develop offshore hydrocarbons, though.

It is possible that “the Lebanese government is going to have a lot of difficulty getting good terms for Lebanon because of these unknown factors,” Mr. Takieddine said.”