

# What lies beneath



*Lebanon must act to keep its seat at the oil and gas table*

Lebanon has missed several opportunities to grow its nascent oil and gas industry at an ideal pace, but now regional developments threaten not just further delays, but also permanent losses unless the country acts to protect its national interests.

The new urgency stems primarily from two principal events. The first was last summer's discovery of the giant Zohr gas field off Egypt's northern coast by Italy's ENI, a find estimated by some to have doubled the North African country's natural gas reserves overnight. It also significantly increased the likelihood of commercially viable deposits in nearby offshore acreage belonging to Cyprus, Lebanon and Israel. This has sparked renewed interest in this section of the Eastern Mediterranean basin from major international oil companies.

The second event – in part at least a consequence of the first – was the Cypriot government's approval in late February of a two-year extension for an ENI-led consortium to conduct exploration and production in Blocks 2, 3 and 9 of Cyprus' exclusive economic zone (EEZ), the first and third of which are adjacent to Lebanon's EEZ. Apart from general location, these blocks also share similar geology with Zohr and other Egyptian and Israeli fields, and undersea hydrocarbon deposits obviously pay no heed to political or other borders, so it's possible that Cyprus' Blocks 2 and 9 have reservoirs that extend into Lebanon's maritime area.

This prospect should be good news for all Lebanese because it offers a chance to share in any revenues derived from any

reservoir that may be discovered, even if this country's energy sector has yet to undertake any production operations of its own. It would also offer an opportunity for Lebanese individuals, companies and government departments to gain experience by cooperating with Cyprus and ENI, helping to prepare our public and private sectors alike for the day when this country starts actively exploring for its own resources.

### **Friends without benefits**

All it takes to start reaping the early rewards of these happy circumstances is for the Lebanese government to exercise a modicum of self-preservation through a little initiative. The only things missing are a maritime border deal with Cyprus to define the line between the two countries' EEZs and a Framework Unitization Agreement (FUA) that would establish terms for joint development and exploitation, including the formula(s) for any revenue sharing.

Herein lies the problem; Lebanon and Cyprus enjoy friendly relations, neither has staked out an extreme position in this process, talks on an FUA have made progress and a delineation map was agreed upon way back in 2007. However, the unitization talks have been stalled since 2013, and the map has yet to be ratified. Absent of such agreements, the scope for legal disputes over potential resources will be considerable, exposing the interests of both sides to unnecessary delays, but hurting Lebanon more because it would prevent this country from assisting and learning in the process – and rob its people of revenues to which they are entitled.

No such questions hang over Egypt's Zohr field, which lies adjacent to Cyprus' EEZ, because the modalities of any shared reservoirs have already been set by Cairo and Nicosia. Time is running out for Beirut to protect its long-term interests with a similar agreement that would, inter alia, insulate it against any kind of "rule of capture" claim if and when Cyprus starts recovering oil and gas from areas adjacent to Lebanon's

EEZ.

The solution is clear: Lebanon needs to re-engage with Cyprus as soon as possible and, when it does, to remain focused and keep its priorities in order. If recent history is any guide, there will continue to be distractions that limit the pace of oil and gas development, including the ongoing stalemate in Lebanon's political class and various obstacles attached to (and compounded by) the state of war that still exists between this country and Israel. To further complicate the situation, the latter is one of three regional states, along with Syria and Turkey, that have neither signed nor ratified the United Nations Convention on the Law of the Sea (UNCLOS), usually the most reliable mechanism for resolving offshore resource disputes.

No matter. None of this prevents Lebanon's diplomats and energy officials from getting on with the business of finalizing the necessary arrangements with Cyprus. The politicians may not get around to activating Lebanon's energy industry as a whole any time soon, but this aspect is a no-brainer: in order to ensure Lebanon receives any revenues to which it is entitled from shared reservoirs, all it has to do is reach an agreement with a friendly country. And although there is no agreement on the tripoint where the EEZs of Lebanon and Cyprus meet that of Israel – leaving an overlap between the Israeli and Lebanese claims – this has no bearing on the rest of the bilateral line between Lebanon and Cyprus, or, for good measure, on the 90 percent or more of Lebanon's EEZ that is not in dispute with anyone.

### **Sharing the spoils**

Lebanon and Cyprus can accelerate this process by jointly enlisting the support of the United States to help define the aforementioned southern tripoint. The Israeli failure to commit to UNCLOS is a significant obstacle, as is the absence of Lebanese-Israeli relations. At present the only country

with the diplomatic heft to ford this impasse is the US, which, through separate discussions with Lebanon and Israel, has already made progress in narrowing the gap between the two sides' respective maritime claims.

Timely cooperation with Cyprus will also preserve Lebanon's interests by garnering fuller recognition of our EEZ. The same partnership may allow Lebanon to start collecting revenues from shared oil and gas fields even before its own production begins. Further down the road, if and when Lebanon is producing enough natural gas for export, Cyprus can be an important outlet to crucial markets in Europe and elsewhere.

Of course, it would be nice if more politicians would provide these and other negotiations with all the support and cover they deserve. Most of Lebanon's political institutions have been hamstrung by partisan wrangling, but parliament still has considerable resources. Having the legislative branch resume its role could be pivotal on this score.

Lebanon is not the first country to face the unique challenges of developing an oil and gas industry during a prolonged period of turmoil, and luckily one of the best examples is Cyprus itself. A third of that country has been occupied by Turkey since 1974 and its political landscape is a raucous one, populated by outsized personalities with sharply different views, and with an economy that is still struggling to regain the ground it lost since the global financial crisis of 2008-2009.

Despite these handicaps, and some decidedly unsubtle Turkish threats, successive Cypriot presidents and their ministers have kept their eyes on the prize, methodically laying the groundwork for its future as a modern oil and gas producer and, quite possibly, as the region's premier energy hub. Successes at home have been matched by effective diplomacy abroad, integrating the tiny country into an interlocking web of bi- and multilateral partnerships that give it a voice on

the regional stage. In addition, far from acquiescing to the continuing division of the island nation as an insurmountable obstacle to this process, Cyprus has turned the tables by holding out future energy revenues as an incentive for reunification.

These attitudes have allowed for meaningful progress across the legislative and regulatory spectrum, encouraging investments and partnerships that even now are fleshing out the infrastructure and support systems for a thriving oil and gas sector. Even more importantly, they have demonstrated the effectiveness of dialogue and cooperation, showing a way to break the cycle of conflict and instability that has gripped much of the region for so long.

That may sound like a lot of ground for Lebanon to cover if its energy sector is ever to catch up with those of Cyprus and other neighboring countries, but the facts are not quite so bleak.

Before the current political stalemate spread into virtually every nook and cranny of the Lebanese public sector, parliament and cabinet designed and even began to install many of the necessary administrative and legal structures, including a suitably empowered Lebanese Petroleum Administration to oversee the sector. While not quite “plug and play,” most of these can start functioning as soon as the right levers are pulled and crucial pieces of enabling legislation are passed. Therefore, while it is probably too much to hope that Lebanon’s deeply divided politicians will act with unity of purpose any time soon, if and when sufficient numbers of them get serious about serving the people they are supposed to represent, the right tools for the job will be close at hand.

Finally, Lebanon should also strongly consider joining the emerging club composed of Cyprus, Egypt, Greece and Jordan. Apart from the technical and economic advantages to be gained,

the various cooperation agreements linked to this grouping give each member greater influence over how the Eastern Mediterranean's energy resources will be developed. Signing on would radically enhance Lebanon's standing, and while the immediate goals of such membership would be economic, the resulting relationships would do much to promote regional stability. That, at least, would offer some hope that all of the peoples in the Eastern Mediterranean might one day know both peace and prosperity.

*Roudi Baroudi is CEO of Energy and Environment Holding, an independent consultancy based in Doha, Qatar.*

**Roudi Baroudi**

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