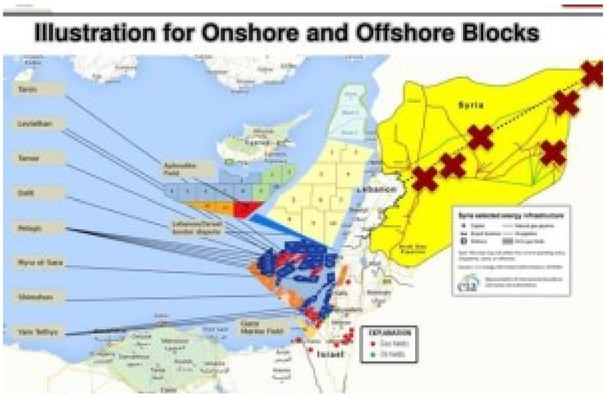
Lebanon’s gas future remains in limbo



BEIRUT: To drill or not to drill. This question is on the lips of energy officials and international oil companies as they watch with frustration Lebanon’s more than decade-long delay in issuing licenses to drill for oil and gas.

All energy officials interviewed by The Daily Star said they were keen to see the two decrees passed that set the number of offshore blocks available for auction and determine the revenue-sharing arrangement between the government and producers. But they noted that the matter continued to be plagued with problems.

None of the officials could cite a final date for the approval of the two decrees, adding that the Cabinet committee headed by Prime Minister Tammam Salam is still reviewing the details of the decrees with members of the Petroleum Administration.

“I really don’t know when the Cabinet will discuss the two decrees. The Petroleum Administration met the committee last week and answered all the queries and made some modifications to the decrees,” Energy and Water Minister Arthur Nazarian told The Daily Star.

The minister added that the date for the new licensing round will only be set once the Cabinet approves the decrees.

“Once the decrees are passed, I will invite the companies to bid for the offshore gas five to six months from the date of approval. But frankly, I don’t have a clue when these decrees will be passed,” Nazarian said.

He revealed that a senior U.S. official may come to Lebanon soon to discuss the country’s dispute with Israel over a roughly 870-square-kilometer piece of offshore territory.

In April 2013, Amos Hochstein, U.S. deputy assistant secretary for energy diplomacy, visited Lebanon and Israel in a bid to mediate an agreement on the matter.

A government source close to Salam said the Petroleum Administration made some progress on the two decrees, but declined to say when the Prime Minister would add the matter to the Cabinet agenda.

“The oil issue is quite complicated because we have external and internal matters that should be resolved first. We are waiting for the United States to resume its mediation efforts between Lebanon and Israel to solve the row over the disputed zone and then we need to persuade some ministers who have certain concerns about the gas licensing round,” the government source said.

He noted that while Salam had acknowledged the importance of the matter, he had yet to take concrete action. “I can’t say that the two decrees will be passed in February,” he added.

He said that ministers were aiming to reach a consensus on the matter before it goes to the Cabinet. “If one minister out of the 24 ministers objected to the decrees then we go back to square one.”

Roudi Baroudi, a leading energy expert, told The Daily Star that Salam is keen to speed up the two decrees after the necessary studies have been completed.

Baroudi, who met the prime minister last week, underscored the importance of also reaching an agreement with Cyprus on joint exploration in the Mediterranean.

“We need to finalize our agreements with Cyprus for joint development production fields and to consider any economic study for our gas to use the LNG facility that is being designed in Vasilikos,” he added.

Baroudi argued that there is no need to demarcate the joint territorial waters with Cyprus, insisting that the Cypriots are keen to start gas drilling with Lebanon.

“I suggested to Salam that the Petroleum Administration be given executive power instead of acting as a consultative body,” Baroudi added.

He believes that Speaker Nabih Berri is one of the few influential politicians who can move the gas exploration case forward in Lebanon.

Baroudi said Lebanon is estimated to have over 120 trillion cubic feet of gas off its coast, which is more than Israel and Cyprus.

A report about Lebanon’s potential oil and gas wealth prepared by Credit Libanais Economic Research Unit said the economic benefits of these commodities would be enormous.

The report, which was based on the studies carried out by Spectrum and other firms which conducted an offshore 3-D seismic survey, believes that Lebanon could gross over $100 billion in revenues over the next 20 years if the estimates of potential resources turn out to be correct.

“We assume that the government’s revenues from the exploitation of oil and gas will mainly stem from a 15 percent corporate income tax, a 60 percent profit share on hydrocarbon production, a royalty fee of 4 percent on gas production, and royalty fees ranging between 5 percent and 12 percent on oil production (average of 8.5 percent adopted),” the report said.

“We expect the government’s revenues from oil & gas production to stand at $3.58 billion during the first year of production (2020) before increasing steadily over the 20-year horizon following the launching of hydrocarbon extraction, reaching $8.15 billion during the 20th year (2039). Consequently, we expect the government’s deficit to shed 5.64 percentage points during the first year of extraction and settle at 4.36 percent of nominal GDP, with this gap dropping to 4.36 percentage points during the last year of extraction,” the report projected.