

Gulf crisis and gas: Why Qatar is boosting output



Qatar may be under economic siege but it pulled an ace from up its sleeve on 4 July by announcing that it will bolster liquid natural gas production by some 30 percent.

The move will secure Doha's position for years to come as the world's top exporter of LNG.

Naser Tamimi, a Qatari energy analyst, told MEE: "It is a very significant announcement as it will put huge pressure on the LNG projects underway in countries with higher extraction costs. It is also signals that Qatar is fighting for market share."

The announcement is also seen as a shot across the bows of Saudi Arabia and the UAE, the leads in the embargo, that Qatar is not buckling under the pressure.

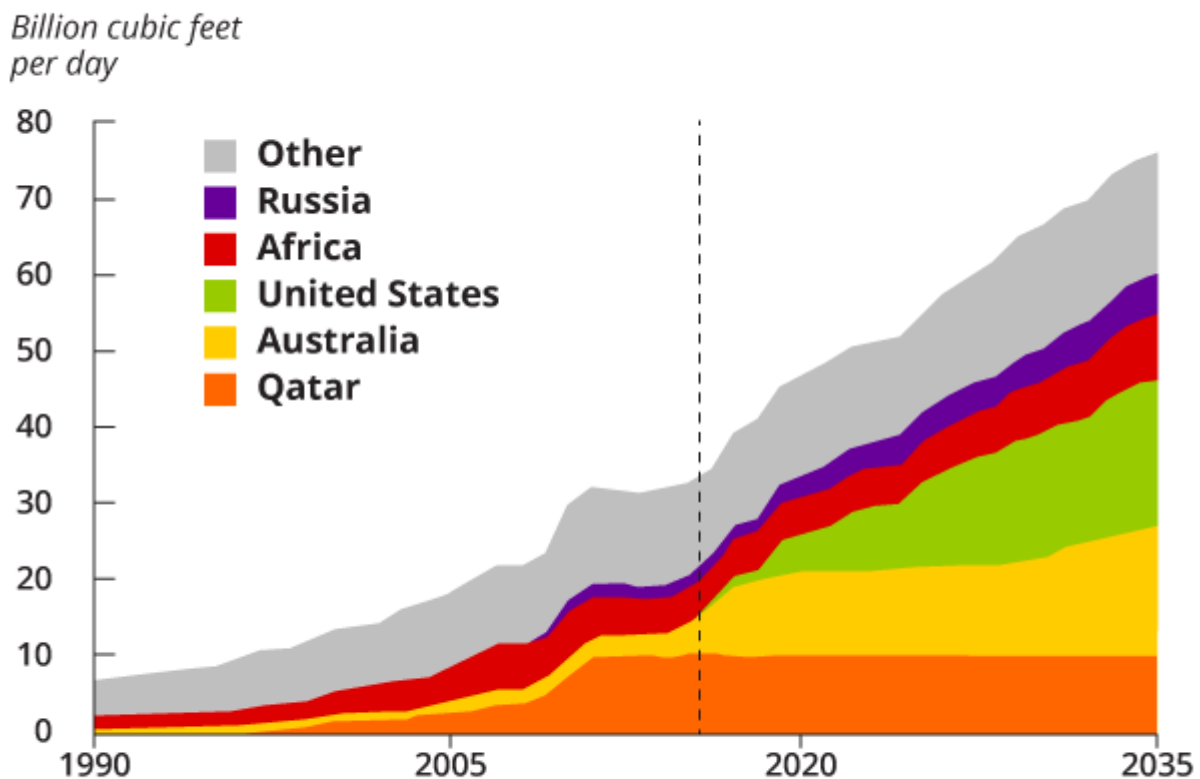
Roudi Baroudi, the chief executive of Energy & Environment Holding, an independent consultancy in Doha, said: "The bottom line is this was a business decision. If politics had an impact, it was in the timing: it's possible that the move was accelerated in order to signal the country's resolve and ensure that if the siege persists, more revenues will be available to help soften the blow."

The Australia-US-Qatar tussle

Qatar had indicated earlier this year that it would increase LNG output by 15 million tonnes (MT) but it has more than doubled that figure to 33 MT. It brings annual production up from the current world-record of 77 MT to 100 MT.

Analysts have generally downplayed the timing of the announcement, which coincides with Doha rejecting the demands of Riyadh and its allies.

Liquid natural gas: Top suppliers 1990 -2035



Source: BP/2017 Energy Outlook



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But the move clearly shows that, at a global level, Qatar wields power when it comes to LNG. Claudio Steuer, director of SyEnergy, a UK-based energy consultancy focused on natural gas and LNG value chains, said: "Qatar's timing is impeccable to exploit the weakness in the current US LNG business model, and pre-empt competition from Russia, Iran, East Africa and East

Mediterranean.”

Australia is scheduled to become the world's largest LNG supplier during the next two years, but it's anticipated that Qatar will then be back on top by 2022 once new production from its huge offshore North Field begins producing.

The US is also increasing its output and expected to become the world's third-largest LNG exporter by 2020, now that LNG export terminals have come online and the Trump administration is pushing energy exports.

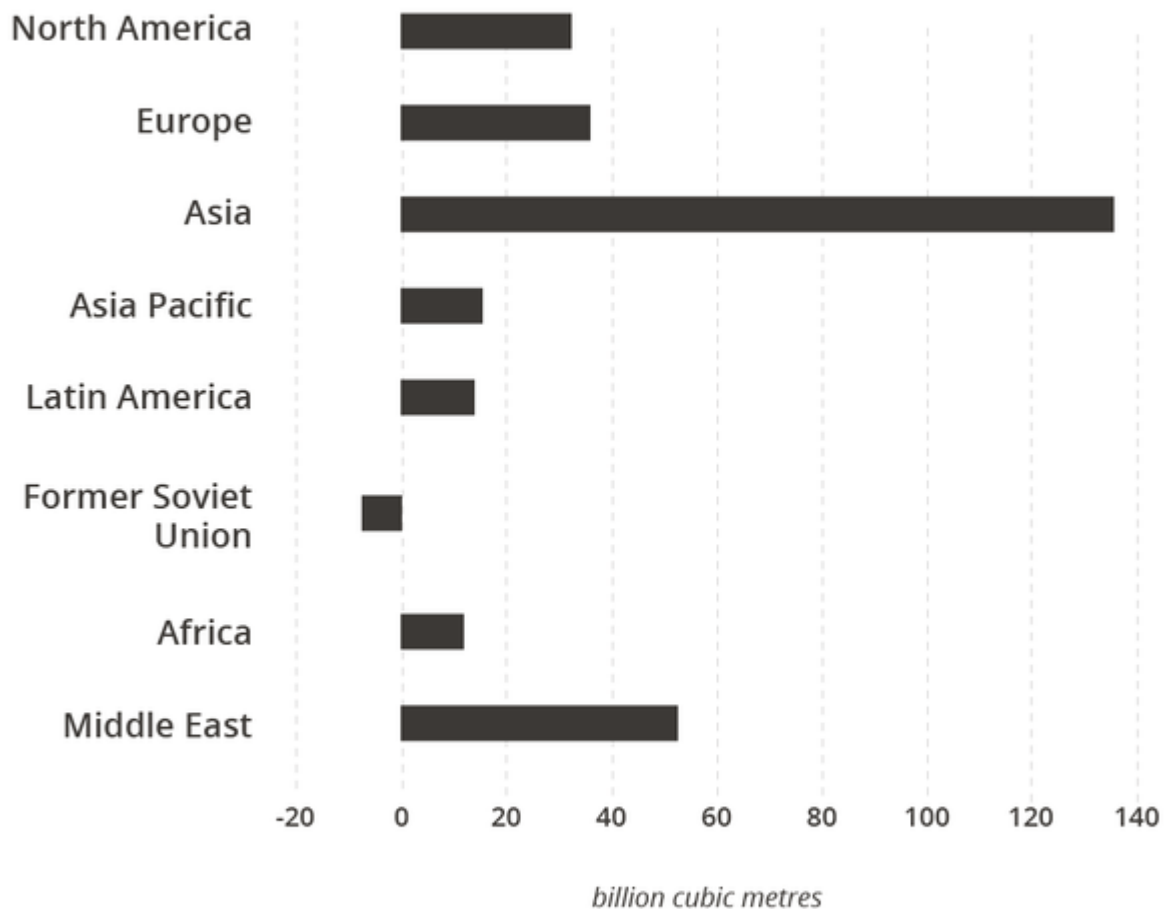
Qatar's increase will ward off such competition, primarily due to lower extraction costs in the North Field and at its liquefaction facilities, especially when compared with fracking in the US.

This will enable Doha to gain market share in countries with rising LNG demand, particularly in Asia, currently the destination for two-thirds of its LNG exports.

“Despite the strong US propaganda, the current US LNG projects costs and business model are not competitive in the growing southeast Asian markets,” said Steuer.

He said that as things stand, the high costs of American LNG extraction only becomes competitive at oil prices of more than \$60 to \$70 a barrel, which will limit the scale of the expected surge of LNG supplies from the US. By way of comparison, oil prices have ranged from \$40 to \$50 a barrel during the past year.

Change in worldwide demand, 2015 – 2020



Source: Nexant



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Trevor Sikorski, head of gas and carbon at Energy Aspects, says that US gas producers will need around \$8 to \$8.50 per million British Thermal Unit (BTU) – a standard unit used for gas – to cover their capital expenditure costs and enjoy a return on their investment.

The Qataris, he said, will want a similar figure to cover investment in their new liquefaction trains – the part of an LNG plant which reduces the volume of the gas by chilling it to liquid form.

“But US costs are a dollar or two higher than what Qatar pays. If it’s a race to the bottom on prices, the US will lose.”

The risks ahead

But Qatar does face one risk: finding long-term buyers of its LNG to secure funding to underwrite the expansion.

Previous LNG projects were greenlit on the expectation of gas prices being double the current \$5 to \$6 per million BTU. Now, they’re struggling.

Qatar has managed to launch out projects, like the RasGas Train 6 – one of 13 liquefaction trains operated by state-owned RasGas and Qatargas – without long-term buyers to guarantee capital expenditures, which eases financing conditions.

Instead it operated on a “merchant basis” that reassures financiers with forecasts of rising demand.

That gamble paid off for Qatar in 2009, when RasGas 6 came online. In 2011 it was given a further boost when it used spare capacity to meet a sudden demand in LNG from Japan after the Fukushima nuclear disaster.

“They’ve taken that risk before and it worked well. If anyone can take that risk it is the Qataris,” said Sikorski.

Riyadh and Abu Dhabi will not be able to use leverage with international oil companies (IOCs) to prevent investment in Qatar. Majors like Royal Dutch Shell, Total and ExxonMobil – already heavily involved in Qatar – have already signalled their neutrality in the GCC crisis.

“I do not see any major show stoppers for Qatar in wanting to ramp up production,” said Steuer, “as all major oil and gas engineering and service providers would welcome the opportunity to secure new business in Qatar.”

The LNG expansion strengthens Qatar's ties with major oil companies while signalling to buyers that Doha can keep taps turned on, despite the crisis.

"Above all else, Qatar Petroleum must be sure it can keep its customers supplied," said Baroudi. "And they're not taking that step alone: they have partnered with some genuine heavyweights of the industry."

A blow to Saudi Arabia?

Opinion is divided as to whether Qatar's announcement raises the regional stakes in the global shift away from oil to gas.

Saudi Arabia and the Emirates, which are not gas exporters, will struggle to match Doha's output.

Shaybah, base for Saudi Aramco's LNG plant and oil production in Saudi Arabia's Empty Quarter in 2016 (AFP)

LNG is considered a cleaner fuel than oil. Major economies such as China, India and South Korea have been moving from coal power plants to gas to reduce pollution.

Steuer said: "As gas is the only fossil fuel with sustainable long-term prospects for the next 25 years, this only reinforces the current tensions involving Saudi Arabia and Qatar.

"As oil demand and prices decline, the economic power is gradually shifting away from oil-rich nations to gas and LNG rich nations. This game changes the balance of political and economic power in the Middle East."

Oil prices are key to balancing the budgets of Saudi Arabia and the UAE. Each needs target prices of \$90 and \$60 per barrel respectively in 2017 to balance the books, according to the Institute of International Finance.

Asia is considered the battleground between Qatar and Saudi Arabia for energy exports.

“I think the Saudis will lose more than the Qataris, as the Qataris depend on gas and condensate more than oil, which is not their main export,” said Tamimi. Oil accounts for around 50 percent of Saudi Arabia’s GDP and 85 percent of its export earnings, according to OPEC.

In December 2016, Russia overtook Saudi Arabia as the world’s largest oil producer. Moscow has also been expanding its market share in China, the world’s largest oil importer and third-biggest LNG importer.

“Saudi Arabia used to have 20 percent share of the Chinese market, in 2011, but in the first five months of 2017 it’s down to 11 percent,” said Tamimi. “It will be difficult or maybe impossible to regain that.”

But while Qatar’s LNG increase is equivalent to around 10 percent of global LNG capacity, Sikorski thinks it is “a bit of a stretch” to say that gas will replace oil dependency.

“To me this is a case of, ‘Look GCC, we [Qatar] are not dependent on you to make our economy work, we can expand our gas exports if you try to squeeze us, and we will continue to make a lot of money on that.’ That was the message to me, rather than saying LNG is the future and oil is dead.”



Paul Cochrane

Gas and the Gulf crisis: How Qatar could gain the upper hand



Asian markets, military allies and a crucial pipeline all offer Doha leverage against its adversaries amid the current crisis

The blockade of Qatar, led by Saudi Arabia and the United Arab Emirates, has already had an economic impact.

Qatar, the world's second largest producer of helium, has stopped production at its two plants as it cannot export gas by land. Qatar Airways can no longer fly to 18 destinations. Qatari banks are feeling the pinch, particularly the Qatar

National Bank (QNB), the region's largest by assets, and Doha Bank: both have extensive networks across countries which are members of the Gulf Cooperation Council (GCC).

Ratings agency Standard & Poor's (S&P) downgraded Qatar's credit rating from AA to A- on 8 June. It could put it on credit watch negative, a sign that the crisis could impact investment and economic growth. Moody's followed suit, placing Qatar's AA long-term foreign and local currency Issuer Default Ratings (IDRs) on rating watch negative.

Doha is unlikely to buckle soon. It has plenty of financial muscle, not least in its sovereign wealth fund, the Qatar Investment Authority (QIA), which holds an estimated \$213.7 billion, according to the Institute of International Finance. The seed capital for that fund comes from Qatar's oil and gas exports.

Energy receipts account for half of Qatar's GDP, 85 percent of its export earnings and 70 percent of its government revenue. The crisis may affect the emirate's medium- to long-term energy contracts, as buyers diversify their imports to be less reliant on Qatari gas.

Roudi Baroudi is CEO of Energy & Environment Holding (EEH), an independent consultancy (the principal holder in EEH is Sheikh Jabor bin Yusef bin Jassim al-Thani, director general of the General Secretariat for Development Planning). He says that when it comes to oil, the advantage is with the Riyadh-led group: Saudi Arabia recently overtook Russia as the world's biggest producer; the UAE is also in the top 10.

"When it comes to gas, however, Qatar holds more and better cards," Baroudi adds.

Doha can use energy as a diplomatic tool to its advantage: how it does this will be crucial as to its attempts to ride out the current storm.

How will Qatar ship its exports?

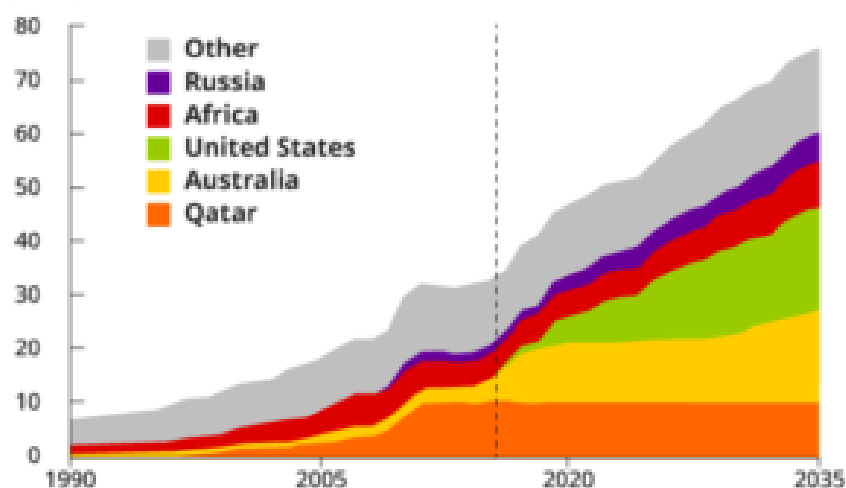
Qatar is the world's largest liquefied natural gas (LNG) exporter, accounting for nearly one-third of global trade, at 77.8 million tonnes (MT) in 2016, according to the International Gas Union. So far there have been no interruptions to Qatari extraction or exports via the 60-plus LNG carriers that belong to the Qatar Gas Transport Company (Nakilat in Arabic).

But as a result of the crisis, state-owned firms Nakilat, Qatar Petroleum and Industries Qatar have all been downgraded.

Much of Qatar's liquefied natural gas is shipped by tanker. While there have been no reports of oil shipments being interrupted, there is concern about Qatari routes to Asia, the key buyer for the bulk of its oil as well as much of the Gulf's exports.

Liquid natural gas: Top suppliers 1990 -2035

*Billion cubic feet
per day*



Source: BP 2017 Energy Outlook



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Historically, Asian buyers demand a mixture of crude oil from the Gulf: usually the tanker would depart the emirate with Qatari oil, then stop to refuel and add Saudi, Emirati and Omani grade crude, usually at UAE ports.

Karim Nassif, associate director at Standard & Poor's in Dubai, says: "If they are not allowed to stop and refuel as some reports suggest, then this could affect the buyers who may be anticipating a variety of crude grades."

The Daily Telegraph reported that two LNG ships bound for the UK were re-routed due to the crisis, but Baroudi says this is not an issue. "If the reports are true, it's just a by-product of how international companies are coping with the Saudi-led embargo by playing it safe."

"Say Company A was planning to deliver LNG from Qatar to the UAE, but the latter now bans Qatari ships from docking and unloading. Company A's response may well be to send an LNG carrier based in a third country to make the delivery instead, then reroute one or more others to make sure all customers are supplied."

Naser Tamimi, an independent Qatari energy expert, says that the same scenario applies to the possibility of Egypt stopping Qatari tankers using the Suez Canal; or raising fees for Qatari vessels. "The Qataris could get around it through tankers registered elsewhere, like the Marshall Islands," says Baroudi, "or divert some of their cargo going to Europe via South Africa."

He says that such moves could add about half a dollar to the cost of each British Thermal Unit (BTU) – but that the Qataris could cope with that, even if they had to absorb the cost instead of the consumer.

Around 70 percent of Qatar's LNG exports are under long-term contracts – typically of around 15 years – so production and payments are secure. The remaining exports are on short-term or spot prices that are dictated by the international markets.

Sources within the shipping industry speculate that some deals may have been called off or delayed: there have been reports from insurance and petrochemical companies that 17 LNG vessels

are now moored off Qatar's Ras Laffan LNG port – a much higher number than the usual six or seven vessels.

Will Asian markets look elsewhere?

The bulk of Qatar's LNG is destined for east Asia – and analysts say that that is unlikely to end soon.

Theodore Karasik, senior adviser at Washington-based consultancy Gulf State Analytics, says: "Qatari LNG is not affected by the sanctions and blockades, simply because GCC states require good relations with east Asian partners."

He said that if Saudi Arabia and UAE were to interrupt LNG exports to Asia, then those customers may not want to invest in the programmes intended to transform the economies of the UAE or Saudi Arabia, such as the 2030 Visions strategies.

His opinion is echoed by Baroudi. "The Asian markets aren't going anywhere. Asian countries need – and know they need – long-term relations with stable producers, and by this measure Qatar is in a class by itself. The same applies for consumer nations elsewhere, so even if the crisis were to escalate, and right now it appears to be settling down, then any interruption would be a short-term phenomenon.

"Qatari LNG simply cannot be replaced. Australia [LNG] will begin to have an impact on international markets by the end of the decade, but that just means an added degree of market competition, not replacement."

But Tamimi thinks the crisis could prompt Asian buyers to diversify their energy portfolios and lessen their dependency on Qatari gas. "They are under pressure now, and in a global context with an LNG glut," he says.

"All Qatar customers are asking for better deals, and Qatar's market share is decreasing compared to 2013 because of competition from Australia, Indonesia and also Malaysia. The

crisis is a reminder to everyone in Asia that the Middle East is not stable, that everything could change within days.”

Will Qatar shut down a key pipeline?

One scenario that would deepen the crisis still further is a lockdown of the Dolphin gas pipeline, which runs between Qatar and some of its fiercest critics.

While two-thirds of Qatari LNG is bound for Asia and Europe, around 10 percent is destined for the Middle East. Two export markets, Kuwait and Turkey, are secure due to better political relations.

But the other two – Egypt and the UAE – are among those nations currently blockading Qatar. If Riyadh and the UAE raise the ante, then it might raise questions about the pipeline’s future.

Egypt gets two-thirds of its gas needs, some 4.4 MT in 2016, from Qatar on short-term and spot prices. Cairo is firmly in the Saudi camp – but has not halted gas shipments.

Baroudi says: “Since the crisis erupted, Egypt has continued to accept shipments of Qatari gas on vessels flying other flags. The 300,000 Egyptians who live and work in Qatar have carried on as before.

“Neither country wants to burn its bridges for no good reason,” he says, “especially Egypt, which only recently staved off bankruptcy because of Qatari financial largesse,” a reference to the \$6 billion Qatar provided in the wake of the 2011 Egyptian uprising.

But it is the Dolphin pipeline, which carries Qatari gas to the UAE and Oman, that is the most contentious issue. The UAE imports 17.7 billion cubic metres (BCM) of natural gas from Qatar, according to the BP Statistical Review 2016, equivalent to more than a quarter of the UAE’s gas supply.

Nassif says: "The Qataris have indicated that the supply of gas through Dolphin to the UAE and Oman will continue. We have no concerns at present of any armageddon scenario of Qatar changing its stance on this."

Either side would lose significantly if the gas was stopped, especially during the summer when power generation is at its peak to keep the air conditioning on. Halting supply would be the Gulf equivalent of Russia turning off the gas to Ukraine in January 2009.

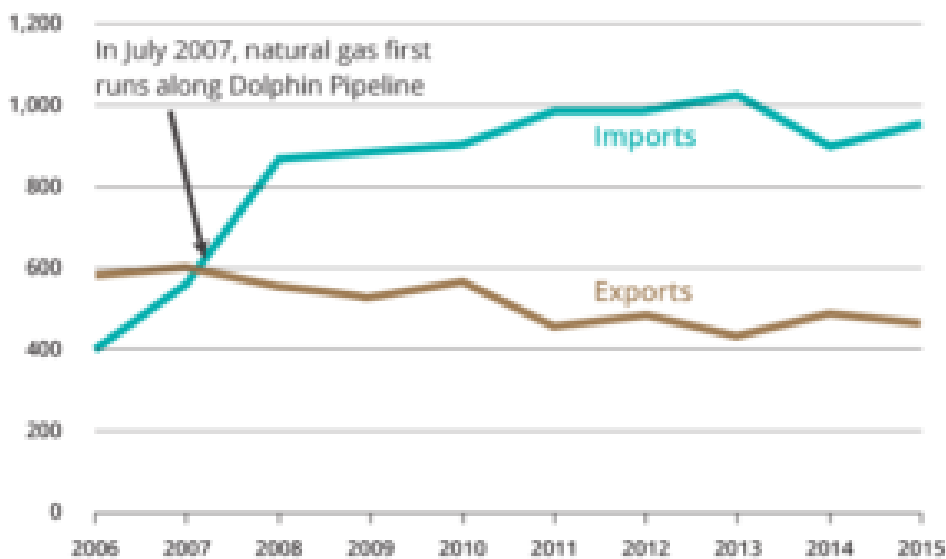
"The UAE would immediately face extensive blackouts without it," says Baroudi. "They would be shooting themselves in the foot if they were to interfere with gas shipments, and Qatar views the pipeline as a permanent fixture, not something to be manipulated for the sake of short-term political gain."

"As a result, neither side has any interest in changing the status quo – and neither has communicated any consideration of such a step."

Analysts say that both sides have contingency plans should the Dolphin pipeline shut down – but, says Tamimi, the UAE will find it hard to compensate for the loss of Qatari gas.

United Arab Emirates natural gas imports and exports

Billion cubic feet



Source: OPEC Annual Statistics Bulletin 2016

M&E

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“They’ll have to import LNG as no one can send it by pipeline. That will cost three times the price they’re getting from the Qataris. There is no official price but it is estimated at \$1.6 to \$1.7 per BTU, so around \$1.1 billion [in total].

“If the UAE wants to stop the Qatari imports, they’d have to pay three times that amount at the current price as LNG is linked to the price of oil.”

A stoppage on either side would also violate bilateral agreements. “If the UAE violates it, the Qataris can sue them and vice versa. If the Qataris do it, it would also send a bad message to their customers, to use gas for political reasons.”

Such a move by Qatar would also undermine its strategy of saying it has been unfairly treated by the GCC and is abiding commercial contracts – unlike the UAE and Saudi Arabia, as Qatar Airways CEO Akbar Al-Baker told the press.

Will there be a land grab by Saudi?

Analysts have not ruled out further sanctions by the UAE and

Saudi amid the current crisis. Any move on blocking energy exports, including the Dolphin pipeline, would be viewed as a serious escalation by Doha as it would cripple its economy.

One hypothetical scenario being actively debated at a political level, according to analysts, is an all-encompassing blockade of Qatar as part of Riyadh's and the UAE's plans to re-organise the Gulf Cooperation Council – and, unless there is a change of regime in Doha, kick out Qatar (let's call it a "Qatexit").

An extension of this scenario is an outright land grab by Saudi Arabia of Qatar's energy assets. These would then fund Deputy Crown Prince Mohammed bin Salman's Vision 2030 strategy to diversify the kingdom's economy.

Karasik says: "Arguably the national transformation plan and Vision 2030 may not be going so well. In addition the (\$2 trillion) Saudi Aramco IPO may not achieve its fully stated value. If this is the case, then Saudi is going to need an injection of wealth and will have to do it fast.

"In other words, Riyadh may look for a piggy bank to rob."

Such a move by Riyadh would be armageddon for the Qatari royal family. The emir of Qatar would be forced to stand down – as Emirati real estate mogul and media pundit Khalaf al-Habtoor has suggested – or Riyadh could take control of the kingdom.

Baroudi believes that the crisis is settling down and will soon be resolved. Other analysts have pointed to the recent \$12 billion US fighter jet deal with Qatar, indicating that Riyadh and the UAE will not get their way. The Al-Udeid US air base, which is the headquarters of Central Command, covers 20 countries in the region.

Turkish troops, who arrived in Qatar for training exercises this week, could also help turn the heat down, now that the two countries have signed a defence pact. Ankara has the

region's largest standing army, with its presence near the Saudi border (Qatar's only land border) considered a deterrent.

But other analysts see no sign of tension ebbing soon. They flag how the descendants of Ibn Abd al-Wahhab – the founding father of Wahhabism, both Saudi and Qatar's dominant theology – have distanced themselves from the emirate's ruling family, undermining its legitimacy. The rhetoric against Qatar from Riyadh and the UAE continues unabated. Last week, the UAE called on the US to move the Al Udeid air base out of Qatar.

“There are no more black swans in our world,” says Karasik. “This idea [of a land grab] is something people are starting to talk about.”

The views expressed in this article belong to the author and do not necessarily reflect the editorial policy of Middle East Eye.

Paul Cochrane

Tuesday 20 June 2017 07:49 UTC

Middle East EYE

**Energy and Environmental
Economist, Roudi Baroudi
joins Power House Energy
Advisory Panel**



PowerHouse Energy Group Plc (AIM: PHE), the company focused on ultra high temperature gasification waste to energy systems, and the creation of Distributed Modular Gasification© (“DMG”), are delighted to announce the appointment of Roudi Baroudi to its recently established Advisory Panel.

Roudi is a global energy expert with over 37 years experience of international public and private companies across oil & gas, petrochemicals, power, energy-sector reform, energy security, carbon trading mechanisms and infrastructure. In addition, he is currently a member of the United Nations Economic Commission for Europe’s Group of Experts of Gas – this is a body established to facilitate dialogue on promoting safe, clean and sustainable solutions for natural gas production.

With a wealth of international experience he has worked on project and program development with the World Bank, the IMF, the European Commission USAID and the Arab Fund for Economic and Social Development. Mr Baroudi is a regular lecturer on global energy affairs and is also the author and co-author of a number of books, article studies and research reports on political, economic and climate change as well as other energy associated matters.

It should be noted that none of the Advisory Panelists are Directors of the Company, and while management, and the Board, will seek their counsel on particular matters pertaining to their individual expertise, the governance and decision making authority for the Company rests solely with the Board of Directors.

Keith Allaun, Executive Chairman of PowerHouse, said: "I believe it is a very strong validation of PowerHouse's potential that we are able to attract someone of the calibre of Roudi to assist the Company.

"The tremendous advantages afforded the Company by such an experienced Advisory Panel cannot be overstated and we are very pleased to welcome Roudi to the team. The members of this panel, investing their time and commitment to our success, will help the Company achieve its commercial goals in segments of the market, and geographies, in which we are well suited to operate.

"I am honoured that each of these industry luminaries has agreed to serve our objective of ubiquitous DMG. With their assistance, we believe PowerHouse and DMG have a very bright future."

Further information on Roudi Baroudi

Roudi Baroudi has more than 37 years of international public- and private-sector experience in the fields of oil and gas, petrochemicals, power, energy-sector reform, energy security, environment, carbon-trading mechanisms, privatization and infrastructure.

Mr. Baroudi's transactional practice began when he joined an energy firm in Pittsburgh, Pennsylvania, U.S.A., in 1978. His practice relates principally to the energy, high technology, renewable and green electricity, and life sciences sectors of the economy, and involves contract and legal negotiations and

investment vehicles, business combinations, divestitures and operations, as well as various forms of corporate and government finance.

His international experience includes project and program development with the World Bank, the IMF, the European Commission, state-to-state protocols, USAID, the Arab Fund for Economic and Social Development, and Italian Bilateral Protocols, as well as multilateral agency financing in the United States, the Middle East, Central Asia, Japan and Europe, many of which have involved negotiations between and among private and publicly owned concerns and national governments or state enterprises.

Mr. Baroudi has helped to formulate energy and environment policies in the Euro Mediterranean and North Africa region and for the Middle East area. He participated in the preparations of the Euro-Med Energy Free Trade Zone, and in the Euro-Med Regional and Euro-Med Government negotiations. He also has had a role in energy and transportation policies, advising both the European Commission and its Mediterranean partners between the Barcelona and Trieste Declarations of 1995-1996 and 2004. In addition, Mr. Baroudi was a founding member of the Rome Euro-Mediterranean Energy Platform (REMEP).

In particular, his work and research on integration have focused on energy and transportation networks and related projects, including natural gas and electricity rings affecting both EU and non-EU member states bordering the Mediterranean. His expertise is regularly sought by the United Nations Economic Commission for Europe (UNECE), which invites him to participate in the expert working party on topics such as gas savings, underground gas storage, and sustainable energy development.

Mr. Baroudi has done extensive work in energy, security and

economic development, industrial programs which have help bring about energy and economic advances related to private sector power development, electricity market unbundling, gas market reform, political reform and deregulation. He also has done extensive work on international oil and gas ventures, including petroleum development and exploration, as well as government legislation.

Mr. Baroudi has held a variety of influential positions. In 1999, he was elected secretary general of the World Energy Council – Lebanon Member Committee, a position he held until January 2013. He is also a member of the Association Française des Techniciens et Professionnels du Pétrole (French Association of Petroleum Professionals and Technical Experts). Mr. Baroudi is a former senior adviser to the Arab Electricity Regulatory Forum (AREF), a member of the Energy Institute, (UK), and a member of the International Association for Energy Economics (IAEE) in the U.S.A. Mr. Baroudi also serves on several boards of directors of different companies and international joint ventures.

Mr. Baroudi is the author or co-author of numerous books, articles studies, and research reports on political, economic, climate change and other matters associated with energy. His insights on these and related issues are frequently sought by local and international companies, governments, media and television outlets. He is also a regular lecturer on global energy and transportation affairs.

In addition to the foregoing, Mr. Baroudi is currently a member of the United Nations Economic Commission for Europe's Group of Experts of Gas, a body established to facilitate multi-stakeholder dialogue on promoting safe, clean, and sustainable solutions for the production, distribution and consumption of natural gas in the world's single-largest energy market.

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About PowerHouse Energy

PowerHouse is the holding company of the G3-UHt Ultra High Temperature Gasification Waste-to-Energy system, and the creator of Distributed Modular Gasification© (“DMG”)

The Company is focused on technologies to enable energy recovery from municipal waste streams that would otherwise be directed to landfills and incinerators; or from renewable and alternative fuels such as biomass, tyres, and plastics to create syngas for power generation, high-quality hydrogen, or potentially reformed into liquid fuels for transportation. DMG allows for easy, economical, deployment and scaling of an environmentally sound solution to the growing challenges of waste elimination, electricity demand, and distributed hydrogen production.

PowerHouse is quoted on the London Stock Exchange’s AIM Market. The Company is incorporated in the United Kingdom.

For more information see www.powerhouseenergy.net

Qatar's Energy Acumen Spells Prosperity at Home and Stable Prices Around the World



by Roudi Baroudi

Qatar's growing stature on the international stage did not come about by accident, but rather as the product of a concerted effort to acquire a larger and more constructive role in the region and around the world. This greater capacity to exert positive influences has been made possible by the country's enormous gas reserves, but even these would not have sufficed without both effective management of those resources and many years of astute diplomacy.

There were never any guarantees that the story would have a happy ending. The first oil well, "Dukhan 1," was drilled in 1939, but Qatar did not gain full independence from Britain until 1971, and its flagship oil company, Qatar Petroleum (QP), was not formed until 1974. Like many resource-rich countries emerging from the era of colonialism, Qatar lacked many of the institutions and mechanisms required for effective governance, so for many years it did not derive maximum benefit from the production and export of crude.

Near the end of the 20th century, however, the country and its territorial waters were found to be sitting atop huge deposits of natural gas in what would become known as the North Field. The colossal North Field covers an area of some 6,000 square kilometres, making it the single largest non-associated gas reservoir on the planet. Coupled with a new leadership that had the vision to make far-seeing investments, this gas has offered Qatar an opportunity to more than make up for lost time. As of 2014, the country's gas reserves were estimated at more than 25 trillion cubic metres, surpassed only by Russia and Iran and equivalent to a whopping 14 percent of the world total.

It was foresight, though, not just raw reserves, that made Qatar what it is today. Not content with the country being "just" another major producer of fossil fuels, the ruling family threw its weight behind financial investments and technological choices that would make Qatar a global leader in several facets of the gas business. Accordingly, billions of dollars were spent to expand production, acquire the world's most advanced liquefied natural gas (LNG) trains, and build a fleet of ultra-modern LNG carriers to serve customers around the globe. As a result, Qatar now leads all nations in exports of LNG. In addition, the country has been the foremost partner in the pioneering of research, development and commercialisation of gas-to-liquids (GTL) technologies, including a jet-fuel blend that reduces both emissions and operating costs.

Even more than natural resources, then, it is sound judgement that has transformed Qatar into the world's wealthiest nation-state on a per capita basis, winning it a choice seat at the table when major powers discuss the most pressing matter of the day. It has used this influence to promote both economic and political stability, striving to forge bilateral and multilateral relationships with which to address shared concerns like war/occupation, poverty, and the environment.

This level of economic and diplomatic ambition requires across-the-board engagement and, when appropriate, strong leadership. Therefore, in addition to having Joined the Organisation of Petroleum Exporting Countries just a year after OPEC's founding in 1960, Qatar also plays a central role in the Gas Exporting Countries Forum (GECF) set up in 2001, having hosted the GECF's Executive Office and Secretariat since 2009.

GTL capital of the world

The GECF was established to promote the interests of the world's leading gas producers by holding regular meetings to find common ground and develop solutions for shared challenges, but its selection of Doha to serve as headquarters reflected a different priority, that of improving ties and coordination with consumer nations. As a country that maintains warm relations with governments on both sides of several diplomatic divides, Qatar and its robust finances have been instrumental in initiating and sustaining useful discussions of issues affecting the international gas market, providing a platform of stability that has allowed the development of a healthy and prosperous energy market that benefits all stakeholders.

Despite the volatility of the hydrocarbon markets and their relationship to international politics, Doha, in particular with its energy policy, has been a focal point of cooperation among producers and consumers with a view toward adopting new standards, regularizing markets and prices, and ensuring both stability and sustainability of supply so that demand is met in a mutually beneficial manner. The resulting safe and sustainable energy flows, with fewer interruptions due to wars or other forms of instability, yields a variety of certainties that serve the interests of all countries. So it was that in less than a decade, a tiny country of just 2 million inhabitants became the most important force for maintaining global security and price stability for all forms of natural gas. Given the ever-increasing importance of natural gas in

the global energy mix, this also means that Qatar contributes mightily to economic growth and flourishing energy initiatives in virtually all corners of the world.

In addition, Qatar has employed skilful political leadership in urging its fellow gas producers to think long and hard about the difference between oil and gas prices. Oil remains the benchmark, as all other energy prices usually rise and fall under its influence. Qatar continues to study the causes that have led to gaps in the price relationship between oil and gas, and how collective action can both restore the link and achieve parity between the two. Given the many environmental and other advantages that gas offers over traditional energy sources – including being non-toxic, near-perfect combustion, no soil contamination, and an enviable safety record – greater parity would seem to be in the interests of all concerned, including the planet itself.

The GTL venture is a prime example of innovation designed to ensure that more and more applications can use cheaper, cleaner-burning natural gas. Qatar is carving out yet another niche for itself, this time as “GTL capital of the world.” Only two other countries – South Africa and Malaysia – possess similar facilities, and Qatar’s access to affordable feedstock will give it significant advantages for years to come. By 2016, national production of GTL will amount to 174,000 barrels a day, radically increasing supplies available to help airlines, local public transport and utilities to reduce their carbon footprints.

The natural gas industry is growing and globalizing as demand expands and new technologies like GTL enable and inspire creative new ways to customize compatible products and services. Simultaneously, Qatar’s backing of a positive global energy dialogue,

reliable production and massive investment in today’s fuel of choice are bringing more stability and security of supply to regional and global markets because in the gas industry, volumes and prices are defined primarily by long-term

contracts, consumers and supplies. In 2006, Qatar and two of its neighbors, Oman and the UAE, completed the first cross-border regional gas pipeline, linking the North Field to customers in Abu Dhabi, Dubai and Oman. This tri-nation sub-sea gas pipeline project was an unprecedented achievement and so set a fitting example of strategic inter-energy connecting grids.

The impacts go far beyond the energy business. For example, Qatar has worked very successfully to foster better environments for strategic partnerships, and to achieve greater energy security while improving climate protection in the discovery, development and production of cleaner and more efficient fuels. This combination imparts enormous value to society by inspiring confidence in the strength and durability of the national economy and the policies pursued by the government, both at home and abroad. Better fuels mean higher standards of living, greater social stability, and a cleaner environment. The revenues and cost savings can be a game-changer in reducing poverty, and the Qatari government has worked to ensure that the gas industry operates with due regard for social, moral and environmental impacts. On this last score, achieving a truly open global market for gas is perhaps the single greatest step government and industry can take to achieve genuinely significant levels of de-carbonization in the coming years.

Even as I write, the world is rapidly moving toward commercialization of energy technologies independent of carbon, such as photovoltaics and fuel cells. These will take time to mature, particularly in terms of applications requiring large mobile energy supplies, so gas will be the natural bridge that joins the carbon and post-carbon eras.

For now, the oil and gas industry continues to decide the future of our world economy, and energy and capital complement one another. Therefore, the emerging primacy of gas will only solidify Qatar's position as a global energy titan, and continue to fuel its diversification as an emerging business and logistics hub in today's highly competitive world. And if

recent history is any guide, the same resources will help fund investments that make the country a player in tomorrow's world as well.

قدّم إلى سليمان دراسته الأخيرة حول "الطاقة في المنطقة" بارودي: "إعلان بعدا اقتصادي" يجذب الإنهيار



المركزية- تسلّم الرئيس العماد ميشال سليمان من الخبير الدولي في قطاع الطاقة رودي بارودي دراسته الأخيرة لهذا العام حول "وضع الطاقة في المنطقة" بعد الدراسة السابقة التي أعدّها في هذا الشأن عام 2008، وذلك خلال زيارة قام بها بارودي للرئيس سليمان في منزله في اليرزة قبل ظهر اليوم.

وتركز البحث في خلال اللقاء، على أهمية الإستكشاف والتنقيب عن الغاز والنفط في لبنان وخصوصاً البدء بالمسح البري بعد مدة زمنية فاقت الـ60 عاماً منذ آخر عملية استكشاف، وضرورة عدم تضييع الفرص في هذا المجال للإفادة من هذه الثروة إلى أقصى حدّ.

وكانت مناسبة شكر فيها بارودي للرئيس سليمان محافظته على الثروة النفطية اللبنانية طوال عهده في سدة الرئاسة، ومتابعته الحثيثة لتطورات هذا الملف عبر مواكبة الإتصالات الجارية مع الدول المعنية بالتنقيب في المياه الإقليمية، سعياً إلى حفظ حقوق لبنان في حصته

النفطية .

وشدد بارودي في خلال اللقاء، على "أهمية تعزيز العلاقات بين لبنان وقبرص في ملف النفط والغاز، وتنمية أواصر التعاون خصوصا في مجال الغاز السائل والتصدير إلى أسواق أوروبا الأقرب على الإطلاق لتسويق الغاز"، مشيدا بـ"النشاطات الجبارة التي تقوم بها هيئة إدارة قطاع البترول في لبنان".

وأكد أنه "لا بد" من إحياء ما طالبنا به منذ نحو سنتين، بضرورة صوغ "إعلان بعدا اقتصادي" يجمع كل الأفرقاء ليشبكوا الأيدي وينكبوا على إبعاد شبح الإنهيار الإقتصادي عن لبنان وجبه كل التحديات والمشكلات التي تعوق نموه وازدهاره، وبالتالي الإفادة من كل الفرص المتاحة على أكثر من صعيد ولا سيما التنقيب عن النفط والغاز في البر وفي مياهنا الإقليمية".

**Uncrossing wires – An
emergency rescue plan for
Lebanon's electricity sector**

[Executive]

International New York Times



Lebanon's electricity sector faces severe difficulties on multiple levels, making it an unsustainable burden on the economy in general and the state budget in particular. Problems extend across all stages of the business process, from production to distribution, even billing and collection, despite the latter having been franchised out to private companies.

Promising proposals – including some very comprehensive ones – to address these issues have been drawn up by and for successive ministers of energy and water, including the latest policy plan approved by the Council of Ministers in June 2010.

These plans can work, but only when the required political decisions are taken to revive this vital sector by insulating it against personal and private interests, be they direct or indirect. Only in this way can we honor both the spirit and the letter of legislation already passed by Parliament by getting on with the implementation stage.

Several matters require urgent attention, including financial and administrative difficulties that have held up construction of a planned 435-MW generating station at Deir Ammar and a similar facility at Zahrani, the combined output of which would provide the country with at least a bare minimum of its

power needs. Specifically, the Council for Reconstruction and Development should be tasked with securing the necessary funds from supporting institutions so that implementation can start immediately.

The politics of electricity

The national interest demands that this be done as quickly and as cleanly as possible, because the last thing Lebanon needs is a dispute with a contractor that leads to court proceedings and/or arbitration that could take years to unfold. It is clear that franchising measures adopted by the Ministry of Energy and Water are tainted with a lot of gaps.

Easing Lebanon's chronic power shortages also calls for urgent action to expedite the delivery and installation of new generating units at the Jiyeh and Zouk plants. Timing is everything in such cases, because every day of delay increases the financial drain and other burdens on all consumers, from households and schools to companies and government offices. This directly undermines the productivity and competitiveness of the national economy, restricting GDP growth and soaking up resources.

Even more importantly, preventing future crises and enabling long overdue reforms demands that oversight be exercised by a duly constituted Electricity Regulatory Authority. Such a body has been created by legislation but successive governments have failed to appoint its five member leadership commission, as called for under Law No. 462 of 2002, preventing the authority from exercising its powers. There is an urgent need to appoint the Electricity Regulatory Authority, as more than 14 years have passed since the issuance of the law calling for its formation, without any legal or legitimate reason being provided for this delay.

The failure to fully implement Law 462 has prompted the legislature to pass Law 288, which alters Article 7 of Law 462

by adding the following paragraph: “Temporarily, for a period of two years, and until the appointment of members of the Authority and giving them their tasks, the production permissions and licenses will be granted by a decision of the Council of Ministers upon a proposal of the Ministers of Energy and Water, and Finance.”

The establishment and empowerment of structures similar to the Electricity Regulatory Authority has been crucial to developing and implementing advanced energy and consumer-protection strategies in jurisdictions around the world – including Europe and our own Euro-Med region – so it remains a mystery why some parties insist on denying this proven setup to Lebanon and the Lebanese.

And as though all that were not sufficient to bring development of the sector to a standstill, a new board of directors has not been assigned for Électricité du Liban (EDL), the country’s state owned power company, since 2005. This has sharply curtailed or even eliminated follow up on the completion of major projects designed to help meet minimum requirements, and committed Lebanon to huge amounts of money.

Then there is the matter of the fuel required for the generating stations at Zahrani and Deir Ammar. Based on the advice of Électricité de France (EDF) and under the terms of the national energy strategy developed in 1992–1993, both facilities were designed and built to operate primarily on natural gas rather than diesel oil. This would impart several benefits, including lower production costs, less environmental impact and longer service lives for generating units.

Once again, however, political bickering and clashes of personality have prevented full implementation of the plan, in this case by failing to secure the necessary gas supplies. As a result, both plants have been run almost exclusively on oil derivatives, obviating some of their design advantages and burdening the treasury with massive bills for fuel that is

dearer, dirtier and less efficient.

An agreement was signed in 2009 to finally link Deir Ammar with the Arab Gas Pipeline, built to carry Egyptian gas to customers in Israel, Jordan, Lebanon and Syria, but the deal was never fully implemented. And in light of mounting instability in the region since 2011, it is highly unlikely that Lebanon will see any benefit from this for the foreseeable future: Egypt has been unable to meet its existing supply obligations for the past three years, and badly needed repairs and maintenance cannot be carried out on Syrian sections of the pipeline through which any Lebanese imports would have to traverse.

Regasification, regulation

Since operation of the electricity plants in Zaharani and Bedawi that relied on natural gas has become impossible without the presence of gas pipelines, and the natural gas liquefaction near the production facilities has become indispensable and irreplaceable, it is imperative for the Lebanese state to start buying, renting or establishing a floating station(s) for liquified natural gas storage, and for its regasification – necessary for the two power plants in Zaharani and Deir Ammar. A floating storage regasification unit (FSRU) would need to be established in each, even if that required the expansion of the port, or the establishment of breakwaters to protect the station from marine factors.

The procurement of the two FSRU stations would allow enormous savings on the price of fuel, significantly reducing the need for public financial support for EDL. It also would substantially reduce the utility's debt ratio; a crucial requirement because the potential impact of government and EDL measures to improve bill collection remains limited. This would lead to the reduction of financial transfers to the EDL mitigating the debt to GDP ratio, particularly since the capability of the government and EDL to collect bills and

prevent electricity theft or attacks to the grid remains limited, reducing the ability to rein in the deficit.

Initially at least, both floating stations should be rented or leased, provided that the awarded contractor or promoter has both the requisite international experience and a demonstrated ability to supply the natural gas in addition to the stations simultaneously. This would translate into substantial cost savings for the control and supervision of the facilities. Any such agreement also should follow the "key in hand" method, which would leave the financing of construction to the contractor, reducing the risk to the state and allowing it to start paying only when it has taken delivery of fully operational facilities. And since we know in advance the amount of fuel required by the power plants, the contract should stipulate the dates, quantities and costs of gas deliveries. This formula has been tried and tested in several jurisdictions, including Dubai, Jordan and Kuwait, and there is no reason why it would not work in Lebanon.

Until steps are taken to regularize the electricity sector by implementing existing legislation, and until the almost year long vacancy in Lebanon's presidency is filled, it is advisable that oversight be exercised jointly by the Parliament and the Council of Ministers.

No individual, though, no matter how influential, can make this happen without securing the trust and cooperation of others. Some features of the Lebanese political landscape are difficult to agree on, but this one is not. National pride, political responsibility and basic common sense dictate that we act quickly to end the mismanagement of this problem. Only then can we start eliminating all forms of waste, alleviating the losses of the state and meeting the needs of power hungry homes and businesses.

دعا "اغتنام دعوة بري إلى التلاقي للحوار الإقتصادي بارودي: للإسراع في تثبيت حقوق لبنان النفطية



المركزية- فيما لبنان لم يطلق بعد صفارة البدء بالتنقيب عن النفط والغاز في المنطقة الإقتصادية الخالصة، صدر في الأيام الأخيرة كلام عن رئيس مجلس النواب نبيه بري مفاده أن إسرائيل تسرق الغاز اللبناني، الأمر الذي من المفترض أن يحث المسؤولين المعنيين على التعجيل في إتمام هذا الملف من جوانبه كافة، لأن الوقت ليس لصالح لبنان.

الخبير الدولي في شؤون النفط رودي بارودي شدد على وجوب تثبيت الحدود مع دول المنطقة كافة، لكنه لفت إلى أن "المشكلة تكمن في عدم توقيع ثلاث دول في المنطقة هي تركيا وسوريا وإسرائيل، معاهدة الأمم المتحدة لقانون البحر حتى اليوم، والتي تحدّد لكل دولة المنطقة الإقتصادية الخالصة، وما لدى لبنان اليوم هو تقريبا 20 ألف كلم² في البحر".

وأضاف في حديث لـ "المركزية": من أصل 854 كلم² من المنطقة المتنازع عليها مع إسرائيل، تمكن لبنان عبر الوسيط الأميركي، من تثبيت سيادته على ما يقارب 530 كلم²، لكن تم ذلك على وقع خلافات حول ترسيم مساحات أخرى بين لبنان وإسرائيل، ولبنان وسوريا، وبين تركيا وقبرص.

وقال بارودي: على الحكومة أولاً أخذ ما أعلنه الرئيس بري في اليومين الأخيرين على محمل الجد وعدم التهاون في هذا الموضوع، وإجراء الإتصالات اللازمة للتثبت من المعلومات حول سرقة إسرائيل للغاز اللبناني، وبالتالي رفع شكوى إلى الأمم المتحدة في القضية، واتخاذ الإجراءات الكفيلة بمنع إسرائيل من ذلك. وثانياً استكمال الإجراءات وإقرار القوانين اللازمة ولا سيما قانون الإستكشاف البري، والإسراع في تثبيت حقوق لبنان النفطية، خصوصاً أن لا مبرر للتأخير في البدء باستكشاف اليابسة ولا مشكلة في ذلك، علماً أنه الأقل كلفة على الإطلاق مقارنة بالإستكشاف البحري.

وإذ حيا جهود الرئيس بري في هذا المجال، شاكراً متابعته الحثيثة لهذا الملف لتجنب لبنان إضاعة هذه الفرصة الذهبية، دعا بارودي جميع السياسيين إلى الإفادة من فسحة الحوار والتلاقي التي دعا إليها بري مطلع العام المقبل لتذليل الخلافات السياسية، واغتنامها للتجاوز والتوافق على إزالة العقبات الإقتصادية وحلحلة مسائل هامة عالقة وأولها ملف التنقيب عن النفط والغاز، والإتفاق على البدء باستكشافهما براً وبحراً.

« LE LIBAN DOIT PROFITER DE LA BAISSÉ DES PRIX DU BRUT POUR LANCER L'EXPLORATION »

**L'Orient
LE JOUR**



les récentes déconvenues de Chypre – où Total et Eni ont coup sur coup annoncé des résultats de forage négatifs – sont-elles un mauvais signe pour le bassin levantin de la Méditerranée en général, et le Liban en particulier ?

Je ne pense pas que cela remette en cause le potentiel de ce bassin, même si Chypre a peut-être été trop pressé de faire de grandes annonces avant de valider la présence de réserves importantes. Total, qui a des décennies de présence dans la région, reste positionnée sur Chypre, et Eni va continuer ses forages dans les blocs dont elle a obtenu la concession. Pour l'instant, le fait que le bloc 12, attribué à Noble Energy, ne contienne que 4,5 TCF (milliards de pieds cubes) de gaz au lieu des 7 espérés a remis en cause le projet de construction d'une usine de liquéfaction du gaz à Vassilikos. Mais Chypre, et tout le bassin levantin (hors Grèce), peut devenir l'un des principaux fournisseurs en gaz de l'Europe. Il pourrait assurer 20 à 23 % des besoins de ce marché qui cherche à diversifier ses approvisionnements, assurés aujourd'hui à 55 % par la Russie.

Le statu quo continue de prévaloir sur le plan libanais où le processus d'attribution de licences d'exploration est suspendu depuis novembre 2013. La chute des prix du brut ne va-t-elle pas accentuer encore le retard de Beyrouth par rapport à Chypre et Israël en repoussant la date du redémarrage de l'appel d'offres ?

Si l'on réfléchit en termes de production, la baisse des prix

internationaux ralentit en effet les activités. C'est la raison pour laquelle Total a estimé qu'il valait mieux ne pas se lancer dans une phase commerciale à Chypre. En revanche, Total sait bien que c'est le moment de poursuivre l'exploration, car les coûts opérationnels et les coûts d'équipements sont au plus bas. C'est le même raisonnement que devrait tenir le Liban. Il doit saisir l'opportunité que représente la chute des cours pour lancer la phase d'exploration en attribuant des licences, sachant que les compagnies auront ensuite trois à cinq ans pour proposer des programmes de production. La priorité doit être de forer. D'abord dans l'idée d'approvisionner le pays pour ses propres besoins énergétiques, et ensuite pour réfléchir à une éventuelle stratégie d'exportation vers l'Europe. N'oublions pas que, juridiquement, ce marché est à 70 kilomètres du Liban. C'est un véritable atout. Il faut cependant au préalable transformer les estimations en matière de réserves en certitudes. Sachant que, tout autour du Liban, il existe des champs gaziers et pétroliers, il n'y a aucune raison de ne pas en trouver ici.

Le niveau des prix du brut devrait-il favoriser le lancement de l'exploration terrestre au Liban ?

Israël vient de lancer la prospection sur le Golan. La Syrie a des réserves prouvées de 2,5 milliards de barils de brut. Le Liban n'a quant à lui toujours pas de loi pour encadrer l'exploration onshore. C'est pourtant le moment de la lancer. La production reste intéressante, même aux niveaux actuels du marché, car les coûts d'exploitation des gisements terrestres sont bien moins chers que ceux des gisements offshore.

(Lire aussi : Le pétrole bon marché, cadeau inespéré pour les consommateurs libanais ?)

Cette capacité de réactivité suppose une vision stratégique et une impulsion politique..

Les deux décrets nécessaires au lancement de l'appel d'offres (sur la délimitation des dix blocs composant la zone économique spéciale et le contrat devant lier l'État aux compagnies) sont prêts et font déjà l'objet d'un accord politique. La loi sur la fiscalité est en cours de finalisation et je ne pense pas qu'elle pose de problèmes majeurs. Ce qui manque, c'est le consensus politique pour redémarrer le processus. Au-delà, le pays doit se doter d'une stratégie nationale en matière énergétique. Et, là encore, le Liban devrait saisir l'opportunité de la baisse des coûts du brut pour réaliser les investissements indispensables en matière d'infrastructures. Je pense en particulier à la nécessité d'alimenter les centrales électriques du pays en gaz. Cela passe par la construction d'un gazoduc le long du littoral dont le coût serait réduit aujourd'hui de 30 à 40 %. Il faudrait aussi louer une centrale flottante de regazéification du gaz naturel liquéfié en attendant de trouver du gaz au large du Liban. Selon mes calculs, l'économie réalisée – coût de location de la barge compris – serait de 600 à 900 millions de dollars par an pour le Trésor, sachant qu'à 90 dollars le baril, les pertes d'Électricité du Liban étaient de deux milliards de dollars par an.

CYPRUS AND LEBANON
PARTNERSHIP WOULD BE WIN-WIN

– BY ROUDI BAROUDI

THE DAILY STAR
LEBANON



Lebanon's hosting of a key Cypriot Cabinet minister this week must have optimists in both countries hoping that in politics, at least, there really is no such thing as coincidence. Both sides have long experience with the various discomforts associated with being buffeted by outside forces, but only rarely – if ever – have both had so much to gain by joining forces to ride out the storm.

The minister in question was George Lakkotrypis, holder of the powerful Energy, Commerce, Industry and Tourism portfolio in the recently installed government, and while diplomatic sources were quoted as saying the visit was mostly “symbolic,” there is reason to believe that what it presages could be very concrete indeed.

Both Cyprus and Lebanon are just a few years from becoming producers of natural gas, and while their opening positions and respective approaches have thus far been different, each is looking increasingly like the other's best friend.

Their relatively large banking system having been crippled by exposure to the meltdown in Greece, the Cypriots had to request a bailout and are still emerging from a bruising encounter with the so-called “troika” of the European Union, the European Central Bank and the International Monetary Fund. The government has managed to negotiate a better overall deal than that which the troika originally sought to impose, but it remains to be seen whether Cyprus can also secure the

necessary time and space to meet its obligations without putting its economy through undue – and completely unnecessary – hardship.

The irony here is that while Cyprus is currently starved for cash and forced to implement strict measures against capital flight, the coming gas bonanza will soon make short work of its debt, a single undersea block having been reliably estimated to hold deposits of gas worth approximately twice the total cost of the bailout. And since these reserves are hardly a state secret, it is difficult to understand why the troika has been so insistent on enforcing such tough terms.

Some suggest that the motivations actually have little to do with Cyprus' finances but are driven instead by Europe's complex relationship with Russia.

Harsh as the bailout measures are, Cyprus had little choice in the circumstances but to accept and implement them in full to help the country emerge from the crippling financial crisis. There are useful lessons to learn from now on in economic management.

How early Cyprus emerges and bounces back to a new era of economic prosperity – which is for sure soon – will depend on the focus and attention given, as well as reinforcing the enabling environment to attract private investment into the large emerging oil and gas developments.

Cypriots should take consolation that the current hardships will be short-lived, if the appropriate measures are taken to tap its hydrocarbon reserves. There is still a lot of good will in the international financial markets and the Gulf toward Cyprus. With the show of commitment and demonstrated will, and resolve to ride the current storm, the future looks bright. After the crisis, there are prospects for economic rebound and long-term steady growth.

Come what may, the combined logics of geology, geography and economics dictate that Cyprus will become a regional energy hub. That destiny may be delayed and/or diluted by other factors – including the U.S.-brokered reconciliation that is expected to open up massive sales from another emerging gas

power, Israel, to the nation that still occupies a third of Cyprus' territory, Turkey – but it will not be denied.

All that remains to be seen is how soon the island nation will be able to build the liquefied natural gas plant and other infrastructure elements that only make sense on its shores, and the biggest obstacle is the troika's insistence on frontloading Cyprus' obligations under the bailout deal, which will make funding more difficult to secure.

For these and other reasons, many Cypriots feel they are being treated unfairly by their European partners, a conclusion that is difficult to question. Just as understandably, the Cypriot government will be casting about to see what gains it can realize by pursuing stronger economic and political ties with its friends outside Europe.

And here sits Lebanon, hemmed in between an ever-hostile Israel and a self-immolating Syria. Its people, too, dream of a more affluent future made possible by gas revenues, but it also faces constraints imposed by geopolitical factors.

Whatever the extent of the hydrocarbons locked off its coast, their practical value is largely a function of whether Israel will try to prevent their recovery; and how cheaply they can be got to market.

The Lebanese need Cyprus on both counts because the latter already has a signed deal delineating its maritime boundaries with Israel and could therefore be instrumental in mediating a Lebanese-Israeli understanding (even if unofficial); and its opening of the aforementioned LNG plant would provide a necessary outlet for Lebanese exports.

As luck would have it, the Cypriots could use a little help from Lebanon too: a long-term deal for Lebanese gas as feedstock would further enhance the LNG facility's economic viability, and Lebanon's contacts in the Arab world might be useful in securing strategic investors for this and other projects, something that would pay added dividends by boosting broader international confidence in the recovery of Cyprus' economy.

The potential for a genuine win-win outcome is very real, but

only if the Lebanese and the Cypriots recognize the need to work together – and avoid getting distracted by either local or international politics.

Roudi Baroudi is an energy and environment economist based in Doha, Qatar.

Lebanon's gas future remains in limbo

THE DAILY STAR
LEBANON



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.