November 08th, 2012 12:00am Posted In: Natural Gas, News By Country, Featured Articles

Tweet Share

Lebanon's Offshore Natural Gas Potential

Lebanon's offshore natural gas potential: hindered by domestic politics, a long-term goal still worth the risks

There should be no shortage of inspiration among Lebanon's fractious political leadership to unite in harnessing the country's offshore natural gas potential. Yet the delay in forming a hydrocarbon committee is just one reminder of the many obstacles facing the country as it seeks to exploit newly-found offshore resources. Disputes over territorial boundaries with Israel will further impede Lebanon's ability to exploit its offshore natural gas supplies.

The critical vulnerabilities inherent in the country's sectarian patchwork are again transparent in this delay, and yet there are some encouraging signs. Recent efforts have shown just how much Lebanon wants to demonstrate to the world - and to the West in particular - that it is on track to becoming a viable and attractive destination for international oil and gas companies. There is reason for hope that many, though almost surely not all, of Lebanon's political factions will at least be able to gather behind this common cause. Provided of course that catastrophe, in the form of major sectarian conflict, does not occur. The licensing round set for 2013 is to offer production sharing contracts under the new offshore petroleum law, and the government is said to be planning for a liquefied natural gas terminal as well as a distribution network connecting energy plants and other facilities.

If ever there was ever a time for Lebanon's divided government to put aside sectarian differences, it is certainly now. Helping to overcome dependency on energy imports would of course be a tremendous boon to the economy which, already suffering from huge debt, has been hit further by the conflict in neighbouring Syria. With debt of almost US$54 billion (just under 138% of GDP), and natural gas reserves surpassing those of Cyprus and Syria, at anticipated prices Lebanon could offset US$1bn per year in expenses lost on imported energy. Hydrocarbon legislation continues to face delays, and the overdue oil and gas watchdog committee - which would oversee licensing with essential foreign companies - has yet to be formed. And so it is domestic politics again that jeopardises the country's economy and development. It has held up the formation of the petroleum administration – something that must be done by the cabinet, which in August was able to narrow down a list of 18 potential members. The final six were due to be determined the next month, now ''by the end of the year''.

It is a worrying sign. The domestic situation overall is only likely to worsen in the coming weeks and months, meaning that this necessary committee would be even harder to form or work together as a cohesive unit. Foreign firms, especially those from Europe and the United States, will be the most sought after for their crucial expertise and capital. These will also be among the most nervous about the looming challenges that could end up making the payoff an even longer-term target. Many will be wary in the first place of signing deals with a government made up in part by members and supporters of Hezbollah - considered by the US to be a terrorist organization. Legal restrictions could make matters worse, if funds are suspected of benefiting Hezbollah, or if its members are part of the cabinet and required for passing through major deals.

A looming war over resources?

Even the most hardened companies are likely to think of the Iraq example, where delays in critical legislation and intractable disputes between the semi-autonomous Kurdish region and the central government in Baghdad have tested the patience of some of the most resilient and ambitious of international oil companies. The prize waiting off Lebanon's coast is nonetheless attractive despite the risks, and cannot be ignored. At a talk he gave at Washington DC's Georgetown University in early October, 2012, Lebanon's minister of energy and water, Gebran Bassil, said that Lebanon is ‘‘technically ready’’ to start developing its offshore resources. He added that bringing in foreign firms, especially British and American, is a priority. Bassil's point, that by exploiting its offshore resources Lebanon will become less vulnerable to instability in the region is one that Western governments should not ignore. This would be good for more countries than just Lebanon, and US and EU support behind a future government aligned less with Hezbollah and Syria could help facilitate a more attractive investment scenario for Western firms. For the US especially, any such effort will need to consider the concerns of its close ally, Israel. Yet domestic annoyance with too much American meddling would likely hamper such efforts.

There will be serious security concerns as well as regulatory risks. Israel and Hezbollah alike have warned that they would use force to protect their interests, which include reserves that Israel (which looks set to become a net exporter of energy) says are within its territory (the Leviathan and Tamar gas fields), and which Hezbollah claims might be in Lebanese waters. Some of this rhetoric will distract from the real potential of each country, disputed as their boundaries may be, but they also point to the risky and complex environment facing potential investors.

In the short term Hezbollah is likely to seek out new ways to bolster its credentials as the safeguard of all Lebanese interests. It is losing members in Syria and seeing its domestic and regional image more and more scarred by its support for the Syrian regime, and so standing up to Israel will remain its fall-back method of garnering support. Seeing itself under greater threat, it may become prone to acting less cautiously in order to grasp at ways to safeguard its long-term relevance, especially in terms of its armed role and in government. This is less likely to involve steps to directly interfere with the country's offshore sector, and would more likely translate into activity much further south, along Lebanon's border with Israel.

Talk of war between Israel and Lebanon over offshore interests overstates the real nature of the risks. The Lebanese government itself, along with members of Hezbollah in the cabinet, would not want to initiate an open conflict with Israel. Any military conflict with Israel over natural gas would therefore be between Hezbollah and Israel, and not likely involve the rest of the Lebanese government or national armed forces in any serious way. Any military action on the part of the government could preclude Western companies getting more involved in the essential exploitation process. And despite the government still taking a nominally hostile stance towards Israel, Lebanon's more important practical needs of long-term economic growth and prosperity - combined with the technical inability to compete with Israel militarily - mean that a war over natural gas is not a real objective.

The biggest risk of conflict occurring over the area's new-found resource wealth lies with Hezbollah and, as increasingly looks to be the case, Sunni extremist elements which have grown in strength in Syria, Lebanon, Iraq and to some extent Jordan. In any future conflict scenario between Hezbollah and Israel, the former would almost certainly target Israeli offshore gas infrastructure, but it is far less likely to target infrastructure within Lebanese territory, regardless of whether that is Western in origin. However, any number of regional groups, including those taking shape now in the Syrian crisis, could conceivably target such infrastructure, in Israeli and Lebanese waters alike. This risk will hang over the Lebanese and Israeli gas finds for many years to come. The degree to which Lebanon is able to withstand the Syrian civil war next door will provide an important litmus test for its ability to become a stable and secure environment for development of its natural gas potential.

James Petretta is Principal Analyst | MENA at Maplecroft. For more information on Maplecroft's Lebanon Oil and Gas Report, click here