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US Mediating Lebanon's Maritime Border Dispute

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If Lebanon hopes to leverage the true potential of the undiscovered natural gas reserves in its Eastern Mediterranean waters, then time is of the essence for it to settle the legal, political, and financial issues which have already begun to cloud one of the most promising stories to emerge from the country in recent years.  And the U.S. is exerting an effort to mediate between Lebanon, Israel and Cyprus on the issue of delineating common orders, U.S. Deputy Assistant Secretary (DAS) for Energy Diplomacy Amos Hochstein revealed at a roundtable convened at the Aspen Institute on Thursday, November 29, 2012. The event was hosted by the U.S.- Lebanon Dialogue Program, a partnership between the Institute and the Lebanon Renaissance Foundation.

The panel was deep in experience and expertise.  It featured: Simon Henderson, Director of the Gulf and Energy Policy Program at the Washington Institute for Near East Policy (WINEP); U.S. DAS Amos Hochstein; Malek Takieddine, a Lebanese legal adviser for the energy industry.  The discussion was moderated by Michael Ratner, an energy specialist at the Congressional Research Services and former senior energy analyst at the CIA.  It was a sharply focused exposé meant to raise industry and government awareness of the challenges facing Lebanon in first finding, then extracting, and hopefully benefiting from its incredible undiscovered gas reserves.  And it delivered.

There was wide agreement at the outset to clarify the terms and context surrounding Lebanese natural gas.  First, no gas has yet been discovered in Lebanese waters.  These are 'undiscovered gas reserves,' which were most prominently publicized in a US Geological Survey report nearly two years ago.  Subsequent surveys indicate that the gas reserves exist, but no gas has been brought to the surface and therefore estimates of reserve size and potential are ballpark at best.  Second, this 'undiscovery' comes at a time when advances in technology have made gas exploitation possible in areas across the world that were previously unknown or out of reach.  Similar discoveries have been made in Mozambique, Tanzania and Australia.  Lebanon, therefore, is not unique.  And third, given the world-wide natural gas revolution, the modest size of Eastern Mediterranean reserves will have regional, not global implications.

In light of that contextual framework, the panelists agreed that the most important task for Lebanon right now is to prepare a welcoming investment climate framed towards establishing an export-oriented gas market.  They were quick to note that the global boom in natural gas production has driven the price of gas down so low that Lebanon would never be able to finance extraction of its reserves unless they were able to be exported to regional and perhaps European markets.  After all, exploiting the reserves is a capital and risk-intensive endeavor; the gas sits six-to-ten thousand feet below the seabed, which is already four-to-six thousand feet below the surface of the Mediterranean.  The panelists estimated that it could take over three months and $100 million just to see if there is gas.  The point, of course, is that international energy companies will not make that investment unless they are certain of market access and demand for the gas.  Lebanon's market alone will not suffice.

But building that favorable investment environment in Lebanon is no small task.  First, it requires determining which waters are, in fact, Lebanese, by delineating consensus boundaries with Israel and Cyprus.  While this is made more challenging by the fact that Israel and Lebanon do not agree on their terrestrial border, the US has already acted as an intermediary and suggested a maritime boundary based on established international law and agreements.  Second, it will require fashioning a profitable export framework for the gas that is not blind to the challenges of regional cooperation.  For example, the theoretically attractive idea of a joint Israeli-Lebanese liquid natural gas (LNG) conversion plant and export terminal is, for obvious reasons, out of reach.  The same goes for Cyprus, whose most obvious export market is Turkey.  And third, it will require Lebanon to create a domestic regulatory infrastructure which, in order to attract a diverse set of high-quality investors, will be free from corrupt practices and insulated from domestic and regional politics.  At a time when political divisions in Lebanon are hardening rather than softening, this is a tall order.

Despite the veritable laundry list of obstacles in the way of Lebanon's pursuit of energy independence and economic growth, the resounding consensus from the panel was that these obstacles can be overcome through existing legal frameworks and that Lebanon should not hesitate in its pursuit of these resources.  Faithful adherence to international law will help ensure that disputes, when they arise, will be settled in their proper legal channels rather than in regional or sectarian politics and posturing.  However, the panelists agreed that Lebanon would be wise to draw early and heavily on international best practices, willing intermediaries, and regional history to help guarantee that this potentially incredible resource will be a blessing and not a curse.

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