Lebanon to postpone gas auction yet again

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BEIRUT: Lebanon will once again postpone the gas auction which was scheduled for Aug. 10 as some ministers expressed their dissatisfaction over the state's share stated in the decrees, insiders said.

But the ministerial committee designated to review the decrees has apparently agreed to open all the offshore 10 blocks for auction so the bidding oil companies can select one or two of these blocks.

"Some of the ministers in the committee, which was formed to discuss two decrees setting the number of blocks that should be auctioned and the

mechanism of revenue sharing, believe that the state should have a bigger royalty and higher taxes from the profits generated by the oil companies once the actual drilling starts," an insider, who is familiar with the discussions, told The Daily Star.

Energy and Water Minister Arthur Nazarian is expected to set a new date for the gas auction in the first week of August.

The ministerial committee headed by Prime Minister Tammam Salam held only a few meetings since it was formed six months ago.

Observers doubt that the committee will hold another meeting in the foreseeable future because the government's priority is holding the presidential elections, tackling urgent security incidents, filling key government administrative posts and reviewing the demands of the Union Coordination Committee which is demanding higher wages for the public school teachers and civil servants.

One source told The Daily Star that most international oil companies may not rush to bid for available gas blocks if Lebanese politicians failed to iron out all their differences on some articles in the decrees.

Some of the ministers wondered why Israel, for example, has set higher royalty and taxes on the oil companies than Lebanon, claiming that the state is giving a making of unnecessary concession to the firms.

According to one of the decrees, royalties were set at 4 percent and oil between 5 to 12 percent, which is seen by some experts as far lower than the ceilings set by other countries which have invited oil companies to explore in its territorial waters.

"The Lebanese government will benefit directly from hydrocarbons activities through imposing area fees, royalties, profit sharing contracts and taxes. These will increase the government revenues. However, high dependence of the government revenues on its resources could have negative and

destabilizing effects on the budget due to uncertainty and price volatility. This inconvenience was witnessed in the 1980s crisis in Zambia, which depended highly on copper, where the economy contracted by more than 30 percent. Lebanon has decided on adopting the Norwegian model channeling its hydrocarbons revenues into a sovereign fund," the decree said.

The decree said that the take (or the government's cut) will be composed of area fees, royalties, pre-tax profit petroleum share according to a profit sharing contract and taxes.

"The profit sharing contracts structure is the established in the countries neighboring Lebanon and it is more politically acceptable while developing local expertise. This structure mitigates corruption and offers companies access to international legal and judicial systems. The total government take will be split between the sovereign petroleum wealth fund and the treasury share of taxes," the decree stated.

According to Globaldata analysts, the total take of the Lebanese government could average 40 to 45 percent of gross revenue.

However, some financial analysts dismissed these estimates, claiming that the state's total revenues will not even exceed 23.5 percent based on the studies they made.

Researcher and petroleum consultant Nicolas Sarkis, who sent letters to the president, the prime minister and speaker of the Parliament urging them to revise the proposed contracts with the oil companies, firmly believes that Lebanon could lose $14 billion in royalties over the next 25 years if the royalty remain at only 4 percent.

"Contrary to the practices around the world, those who drafted the decree on the government's take have put a royalty between 5 to 12 percent on oil and 4 percent on gas only, which is below the world's average for gas. Based on independent studies, these royalties mean an annual loss of $238 million for gas and $325 million loss for oil. This translates into a total loss of $14

billion over the next 25 years in accordance to the duration of the contract," Sarkis argued.

Citing an example of other countries that set higher royalties and taxes on oil and gas revenues, the analysts stressed that Israel has an average royalty of 12.5 percent.

"In addition, Israel has set a tax on profit starting from 20 percent if the operating oil company restored 150 percent of the capital it invested and this tax profit could reach as high as 50 percent if the firms made more money from their investments," he said.

Sarkis said that the two decrees only made a brief mention about the creation of a national petroleum company in Lebanon.

But one source familiar with the discussions in the ministerial committee said that there is a general agreement to open all the 10 blocks off the Lebanese coast for auction.

"This will give the companies the chance to select one or two of the blocks instead of offering four or five blocks," the source said.