LEBANON’S NASCENT OIL & GAS SECTOR: STRUGGLING TO KEEP THE MOMENTUM

The dominant impression left by the *Lebanon Petroleum Day* conference (Oct. 22) was one of helplessness. Despite Lebanon’s interesting hydrocarbon potential, and the huge work that is being done by the Petroleum Administration, it is hard to keep the momentum if the government is unable to find a wide enough consensus to pass two decrees that are needed to proceed with the first licensing round. After postponing the tender five times in less than a year, it was not surprising the authorities were unable to gather enough international interest in the process to proceed with the organization of the Lebanon International Petroleum Exhibition and Conference, LIPEC 2014. The less ambitious LPD drew a large crowd, but few companies. None of the 46 that pre-qualified for the tender had a noticeable presence, beyond the participation of a representative.

Predicting oil or gas prices is a dicey game. But the sharp fall in oil prices in the past few weeks seems to announce a trend, owing to a more diverse global market and increasing supply. A geopolitical shock can bring prices back up but many of the causes that led to lower prices are expected to persist on the small to medium term, making expensive projects less attractive. This is an additional challenge for a country like Lebanon – at the time of writing still languishing at the pre-licensing phase – making it harder to join the ranks of producer countries. By the early 2020s, when Lebanon is *supposedly* set to start production, a wave of new supplies will become available to global markets with additional supplies from the U.S., Australia, East Africa etc. Lebanon is a small market. Lebanon’s Petroleum Administration is forecasting local gas demand to reach 0.2 tcf annually, making exports a necessity to attract international oil and gas companies. Lebanese authorities see neighboring countries as “natural markets” and claim they have an advantage over other producers (or future producers) in the region also eyeing these markets: Part of the infrastructure is already in place. The Arab Gas Pipeline, they say, could be reversed to supply Lebanese gas to neighboring countries, and an additional segment could be built to reach Turkey (onshore or offshore, depending on the situation in Syria).

Putting aside for a moment the fact that neighboring countries might prove to be unreliable transit routes (as evident by the repeated closures of the Lebanese-Syrian border to Lebanese transit trucks, even before the outbreak of the Syrian conflict), they might also be saturated by the time Lebanon is ready to export its gas. For example, and if confirmed, the MoU between Jordan and the Leviathan partners, would be able to meet most of Jordan's gas demand for 15 years. Similar deals with other neighboring countries are also being negotiated, forcing Lebanon to look for farther markets for its gas, usually requiring a more costly infrastructure.

Lebanon is a potentially attractive destination for investments. But a combination of political indecision, lower prices, (at best) modest resources, repeated delays, unreliable regional markets and the possible need for more expensive infrastructure make investment projects in Lebanon less appealing. Luckily, the Lebanese have the ability to influence *some* of these parameters. For the moment though, indecision is prevailing, and the Lebanese don't seem to be concerned by the time factor.