

# DRAFT PETROLEUM POLICY FOR LEBANON

## 1. BACKGROUND AND INTRODUCTION

In order to test the potential of Oil and Gas offshore, Lebanon has already commissioned both 2D and 3D seismic surveys. Lebanon has also delineated its exclusive economic zone with Cyprus in preparation for oil and gas operations.

Within the near future, it is hoped that Lebanon will embark on exploration activities offshore, in order to test the presence of Oil and Gas. As this is the first time Lebanon embarks on such operations, it must benefit from international experience, in order to avoid negative consequences and ensure optimal national benefit. Lebanon thus needs to agree on a petroleum policy that will guide future legislation in the petroleum sector so as to integrate the management of petroleum resources with the economy and welfare of the nation.

## 2. OBJECTIVE AND SCOPE

The purpose of this policy document is to provide a set of principles and guidelines for managing petroleum resources. These will form the basis for legislative, contractual and institutional frameworks for petroleum operations, with an emphasis on exploration. Other downstream operations are excluded from the policy.

## 3. GENERAL PETROLEUM POLICY

### 3.1. Resource Ownership

Petroleum resources are owned by the State of Lebanon, and shall be used for the national benefit.

#### 3.1.1. Resource Probability and Risk

The presence of petroleum resources is not yet proven. However, the pre-requisites for petroleum generation and accumulation are confirmed by seismic surveys and geological conditions in the Levantine basin, and are further supported by discoveries in neighbouring countries. The presence and commerciality of these will be tested by drilling. Potential petroleum resources offshore Lebanon may be either Oil or Gas, or both. Both possibilities will be taken into account when evaluating policy options.

The risk and cost associated with exploration offshore Lebanon is considered high at this early stage. Lebanon will seek to attract investment by oil companies that are technically and financially capable of shouldering such risk.

### *3.1.2. Resource Utilisation*

If commercial petroleum is discovered and developed in Lebanon, the government will utilize it based on the option that is most beneficial for Lebanon.

*Option 1:* Petroleum resources will be fully utilized for local consumption (Oil and Gas).

*Option 2:* Petroleum resources will be fully exported, in order to generate revenues to the Treasury.

*Option 3:* Petroleum resources will be partially utilized for local consumption, and partially exported.

### *3.2. Legal and Contractual Framework*

Lebanon's future petroleum legislation will supersede previous legislation, and will be in line with international conventions related to mineral exploration and exploitation.

The legal framework in the petroleum sector will maintain predictability while ensuring stability in the fundamental principles.

To provide the legal basis for petroleum activities, a petroleum law will be enacted. The law will address the fundamental and lasting principles of petroleum policy.

Petroleum regulations will be enacted to embrace legislative requirements that are too technical and/or detailed to include in the law. Such regulations will be issued by the Council of Ministers before licensing, and thus the legislative requirements will not be negotiable.

Model contracts and ultimately signed contracts, will be based on the law, the regulations and other relevant legislation. They will cover commercial relationships between the government and the licensee, in addition to administrative aspects that are not covered by legislation. Licenses will be awarded by the Council of Ministers on the basis of a signed contract.

At this early stage of exploration, production sharing is a suitable contract to attract applicants. It is also possible to consider other contract forms, such as concession contracts.

Lebanon will not impose any form of capital control in order to neutralize the impact of petroleum operations on the balance of payments.

### *3.3. Institutional Framework*

In order to establish efficient operations, the government will seek competent oil companies to carry out petroleum operations within delimited areas offshore. The government will pursue constructive and coordinated relationships with the licensee based on mutual respect and understanding of each other's roles and obligations, as defined in relevant laws, regulations and contracts.

### *3.4. State and National Participation*

In view of the high risk associated with exploration at this stage, the Lebanese State does not intend to participate commercially as a shareholder in exploration. The State will however secure an option to participate in development and production at percentage shares to be negotiated in the contract. The establishment of a national oil company will be evaluated in light of commercial discoveries and the exercise of State participation options by the government.

The government will encourage the Lebanese industry to participate in delivering goods and services to petroleum operations, provided that this does not weaken the efficiency or quality of work. Association of local industries with foreign partners may be carefully considered as a means of quickly acquiring competence.

### *3.5. Transparency*

Openness in the petroleum sector is essential to prevent corruption and ensure accountability. Notwithstanding confidentiality clauses (see section 3.8 below), the processes leading to commercial contracts and deals shall be made public and shall be subject to auditing by government or by reliable, competent and neutral institutions.

Officials in the petroleum sector shall have clear job instructions to make them accurately accountable for their actions. Decisions made by governmental institutions shall be open for appeal to relevant authorities.

Contracts over a limit to be specified in the regulations, within the petroleum sector shall be open for bidding by competent bidders. The Council of Ministers shall have the right to audit such transactions and may approve allocation of contracts that exceed certain monetary value.

### *3.6. Health, Safety and Environmental protection*

As part of the pre-qualification process, applicants will be asked to document an integrated Occupational Health, Environmental Protection and Safety Management System (OHES) to demonstrate their competence and compliance with Lebanese and international standards and requirements.

Licensee performance will be monitored to ensure efficient adherence to their OHES system as acknowledged by government. The licensee shall bear full cost of any material or environmental damage resulting from negligence on their behalf.

The Lebanese government shall also take into account regulatory concerns that are related to global environmental challenges, and particularly Climate Change and carbon capture and storage, as well as the possibility of introducing a carbon taxation regime.

### *3.7. Improved Recovery of Hydrocarbons*

The same requirements for pre-qualification mentioned under section 3.6 above apply in this section. The applicants will be asked to document a binding field development plan (FDP), in which they investigate all alternatives for optimising oil recovery. After approval of the FDP by government, the licensee shall continue to consider improvements in recovery on the basis of efficient reservoir monitoring programs and report their findings to government.

### *3.8. Management of Data Collection and Dissemination*

Any data obtained from Lebanese territories is the property of Lebanon, it constitutes a national asset, and can only be exported by special permission. In recognition of the licensee's commercial interests, certain data may be kept confidential for periods of time specified in the legislation or contract. The government can make general statements on confidential data.

The licensee is obliged to make available to government all raw/processed data as soon as collected/produced. Government shall maintain a depository to preserve the data, and make this accessible to public and commercial interests on terms to be stipulated in regulations.

### *3.9. Regulatory Relations to the Licensee*

A system of reporting by the licensee to the government will be outlined in the legislation and contracts. In order to perform their respective roles efficiently, both government and licensee shall strive to seek optimal solutions in their dialogue with each other regarding the conduct of operations. Notwithstanding formal approvals, the

licensee shall keep government reasonably and continually informed of progress.

*3.10. Development of National Expertise*

Petroleum activity shall be utilised as an opportunity for upgrading national competence and skills. Emphasis shall be placed on acquiring know-how as means of creating sustainable enterprises that will help lessen the dependence on petroleum in the long run.

*3.11. Development and Training of Government Personnel*

In legislation and contracts, provisions shall be made to ensure rapid training and development of government personnel within the petroleum sector and related aspects.

*3.12. Development and Training of the national industry*

The licensee will be expected to invest in upgrading the competence of national institutions to improve their ability to deliver to petroleum operations.

**4. LICENSING POLICY**

*4.1. Promotion*

The government shall be responsible for attracting oil companies in exploration offshore Lebanon. Assistance from consultants may be required.

*4.2. Pre-qualification*

Only oil companies with established competence in offshore operations will be eligible for applying to licences in Lebanon. The pre-qualification criteria and procedure will be established by petroleum regulations.

*4.3. Variety and Competition among Licensees*

Lebanon aims at having a variety of licensees, selected on the basis of competition. Variety may also be achieved within each licence by granting licences to un-incorporated consortia that consist of several licensees.

*4.4. Licensing Rounds*

Licensing shall be based on open rounds. If an open round is not possible then selected pre-qualified companies may be invited.

*4.5. Gradual Licensing*

Each round shall contain only a portion of available blocks in the area in question. Lessons and results gained from earlier rounds shall be used in optimising the terms in subsequent rounds, thus increasing the benefit to the nation. Acceleration, if required, shall be achieved through more frequent rounds rather than licensing most blocks in one round.

*4.6. Work Programs*

A major criteria for selecting licensees is the quality and expenditure the company is willing to commit to in the work program they propose in their application. The quality of a work program is reflected in the value of the answers it would provide, and hence the geological thinking behind it. The aim is to get the most and best answers with the least cost.

*4.7. Licence Allocation Criteria*

In addition to the quality of the work program, the final selection of licensees shall be based upon i.a. competence, relevance of experience, financial strength, and willingness to co-operate. The final parameter for selection is the total benefit to Lebanon of the commercial terms finally offered by the licensee.

#### *4.8. Monitoring Exploration Operations*

Governmental supervision of exploration activities shall aim at ensuring adherence to legislation, contract terms and the standards and norms established by the international industry for efficient and up-to-date performance. Health, safety and environmental protection, as well as the proper documentation and testing of prospects, are among the primary objectives of government monitoring in the exploration phase.

A system of reporting by the licensee shall be outlined in the regulations and contract, supplemented by guidelines and directives as needed.

#### *4.9. Annual Reports on Exploration*

A report on petroleum activities shall be submitted annually by the Council of Ministers to the Parliament. The report shall contain an update on petroleum policy in light of events.

#### *4.10. Special Considerations for Natural Gas*

The burning of gas shall be forbidden except for minimal quantities for testing and commissioning purposes. Associated gas shall be utilised unless the government is convinced that all alternatives for saving or utilising the gas have been satisfactorily exhausted by the licensee.

In order to allow the licensee adequate time to investigate commercial utilisation of gas, a longer period of discovery evaluation than that for oil should be permitted.

### *5. FIELD DEVELOPMENT*

Since field development depends on commercial discoveries, this policy document shall only provide the main outlines of policy on development and production. A supplementary policy document may follow later in light of actual discovery(ies).

#### *5.1. Evaluation of Discovery*

The licensee will be required by regulations to report on discoveries once they are made, and within a predetermined time period as the discovery is further evaluated.

#### *5.2. Monitoring Commercial Evaluations*

The licensee shall provide the government with ongoing information on the commercial aspect of its discoveries.

#### *5.3. Unitisation*

Licensees in fields crossing the boundary between two licences shall attempt to agree on the exploitation of the field as one unit. If they fail to agree, government shall have the right to decide on how the field should be unitised.

At this stage, only blocks strictly within the national jurisdiction shall initially be licensed pending agreement on border issues.

#### *5.4. Dialogue on Field Development Plans*

Before submission of a plan for approval by the authorities, the licensee is expected to keep the government informed of progress and possible challenges.

#### *5.5. Approval of Field Development Plans*

Before the licensee starts making commercial commitments on development, a comprehensive plan with detailed attachments should be submitted to the authorities as a basis for issuing an exploitation permit.

#### *5.6. Monitoring Production Performance*

The government shall monitor production operations especially the measurements of produced liquids and gas as well as the performance of reservoirs with a view of promoting better recovery of hydrocarbons from reservoirs. A continual dialogue between the licensee and the authorities should be maintained on optimal solutions.

#### *5.7. Tail-end Approval*

At least two years before abandoning production, the licensee shall submit a plan for how the remaining resources may be recovered (Tail-end Plan). The plan shall include options for the prolongation of production.

#### *5.8. Decommissioning of Installations*

Once all hopes of further recovery from a field are deemed to have been exhausted, the licensee shall submit a plan for the cessation of activities, removal of installations and the restoration of the environment. The plan shall be subject to approval by the authorities.

### **6. PIPELINE TRANSPORTATION**

Transport by pipeline could be necessary for both gas and oil. However, offshore loading of oil is considered as high probability. Gas however, will most probably have to be transported by pipelines.

#### *6.1. Transportation of gas*

The first priority for using gas pipelines goes to the owner of the pipeline. However, any excess capacity in existing pipelines shall be made available for other gas shippers (third party) who wish to use it. The third party use of available transportation capacities shall be governed by regulations.

#### *6.2. Permits*

The licensee will submit a plan for the construction and operation of pipelines to the government for approval, either separately or as part of the Field Development Plan (FDP).

#### *6.3. Tariffs*

The parties involved (the owner and the shipper) should try to negotiate tariffs, in case they don't reach an agreement, the government will interfere and stipulate terms.

#### *6.4. Treaties with Neighbouring Countries*

If gas is transported to neighbouring countries, the government will facilitate pipeline construction and operation through bilateral or multilateral arrangements.

### **7. THE IMPACT OF PETROLEUM OPERATIONS**

The government is aware of both positive and negative international experience in managing petroleum resources. At the early stage of exploration, possible impacts are considered to be minimal. In the event of several discoveries of reasonable size leading to high petroleum activities, negative consequences may arise. The government will monitor the progress of these activities and implement measures to prevent negative impacts from happening while maximizing other beneficial impacts.

#### *7.1. Impact on National Industry*

Although this impact is assumed to be limited in the exploration phase, the government shall ensure that petroleum operations, do not negatively affect industries such as tourism, shipping and, fishing.

#### *7.2. Impact on Urban Development*

Although this impact is limited at the early stages of the exploration phase, due vigilance shall be given to address this issue.

#### *7.3. Impact on Foreign Relations*

The start of petroleum operations may trigger issues of bilateral and multilateral nature that need to be clarified. The first such issue is settling possible disputes on the offshore boundary with neighbouring countries. Issues related to the protection of the environment and the management of emergency situations may also arise. Lebanon may be able to proceed with activities while some of these issues are being resolved. Government will prepare a strategy to address the issues that may arise.

#### *7.4. Impact on Employment Opportunities and Patterns*

This impact is minimal in the exploration phase.

#### *7.5. Impact on Education and Research Plans*

The government will promote and support special education and research programs within the petroleum sector.

### **8. FISCAL POLICY**

The government will aim at maximizing revenues from upstream petroleum operations, while preserving competition dynamics in the sector through minimized interference in market decisions of oil companies.

The government will enter into contracts that ensure optimal revenues for the Treasury from the oil company's upstream petroleum operations.

### **9. REVENUE MANAGEMENT**

Revenues from upstream petroleum operations will be channeled to a dedicated Treasury account, and managed by the Ministry of Finance. If need be, a dedicated unit will be established at the Ministry of Finance to manage these revenues.

#### *9.1. Revenue Monitoring and Auditing*

Oil companies will submit financial statements that are audited by an external auditor that is agreed upon by both parties.

#### *9.2. Revenue Utilization*

Option 1: The Council of Ministers will utilize all revenues from upstream petroleum operations in the short term for debt retirement and current expenditures.

Option 2: The Council of Ministers will channel all or part of revenues from upstream petroleum operations to a dedicated fund.