

# Offshore ineptitude

Lebanon entered 2012 with the resolute promise to tap “huge wealth” from offshore hydrocarbons. Determined to ride in the new year on a wave of applauding headlines, the Minister of Energy and Water Gebran Bassil announced the creation of the Petroleum Administration, paving the way for the sector’s evolution.

In January the ministry announced that the board of the Petroleum Administration would be made public by the end of the month, the first licensing round for exploration launched within three months and the first contracts inked on paper by the end of the year. The bulk of the nation’s press obliged the minister, lauding a new page in Lebanon’s history, drunk on the promise of energy independence and untold wealth. However, as 2012 draws to a close the rhetoric rings hollow and the lofty plans remain stuck in the starting blocks.

The initial clamor was not without some justification. The odds are stacked in favor of the prospect that Lebanon is sitting on a tidy offshore treasure trove. A 2010 report by the United States Geological Survey estimated an average of 1.7 billion barrels of recoverable oil and 3.5 trillion cubic meters of recoverable gas in the Levant Basin Province, a geological formation in the Eastern Mediterranean extending from Syria to the Sinai.

What’s more, Israel and Cyprus have made impressive discoveries in recent years, which will have considerably whetted the appetite of international oil companies to tap into Lebanon’s seabed. In 2009, Tamar, a 237 billion-cubic-meter (BCM) gross natural gas field, was successfully drilled off the coast of Israel, and an additional 453 BCM of natural gas were discovered in the Leviathan field in late 2010 — the world’s largest deep water gas discovery in the last 10 years. In December 2011, the Cypriots tapped into what could amount to 226 BCM of natural gas in the Aphrodite field.

## Sitting idle

Lebanon, meanwhile, has been left on the sidelines. “Israel’s and Cyprus’ relationship has been developing well, to the detriment of Lebanon,” says Malek Takieddine, a Lebanese lawyer specializing in the oil and gas industry. “The Ministry of Energy and Water wanted to pick up on the relationship with Cyprus but you need to have much more practical steps for that to happen, especially with regards to the appointment of the Petroleum [Administration] and the launching of the licensing round.”

In early July, industry bigwigs from around the globe came to the Lebanon International Petroleum Exploration Forum & Exhibition to see what the nation had to offer. The answer was sadly, not much. “Triggered by the success in Israel and Cyprus we cannot afford to idly sit by,” remarked Fadi Nader, advisor to the energy minister. Yet the impression was exactly that once the attendees had wafted through the hot air. Minister Bassil promised the Petroleum Administration within a few weeks and then the Ministry of Finance gave a 45-minute presentation revealing pretty much nothing about the tax scheme to which prospective companies would have to adhere to.

While several International Oil Company representatives expressed a skeptical caution to Executive about the ability of Lebanon’s politicians to actually get moving, others have thrown in their lot and aligned themselves with local partners (only consortiums of three or more companies in an unincorporated joint venture can actually bid for tenders). For example the Scotland-based firm Cairn Energy has joined Cove Energy and Consolidated Contractors in anticipation of the race to the ocean floor.

## The eleventh hour

Minister Bassil took the opportunity to score some local cheers by maintaining, “we will not compromise on our right to the full 860 square kilometers.” However, such grandstanding did little to inspire investor confidence and seriously irked the Americans, who had been working behind the scenes to negotiate a settlement to Lebanon and Israel’s disputed Exclusive Economic Zones (EEZs); Lebanon has since dismissed the proposal.

Having stumbled and tripped at every step of the way, there was little reason to anticipate the creation of the Petroleum Administration before the year was out. And then in true theatrical style Minister Bassil pulled the rabbit out of the hat at the 11th hour — actually the 11th month, with the government agreeing upon the six appointees in mid-November.

“The [Petroleum Administration] must now start preparing the acreage pre-qualifications and tenders and lay the groundwork for the production sharing agreements once the companies and the consortiums are short listed,” says independent energy consultant Roudi Baroudi. In short: Now the real work begins.