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LEBANON'S GAS FUTURE: INTERVIEW WITH DR CAROLE NAKHLE

Natural Gas Europe had the pleasure to interview Dr Carole Nakhle, Director of Crystol Energy. Dr Nakhle has more than 17 years of experience in energy economics. She worked in academia (University of Surrey), the oil and gas industry (Eni and Statoil), policy making (Special Parliamentary Advisor in the House of Lords), and as a consultant to the IMF, World Bank and Commonwealth Secretariat. She is a Research Fellow at the Lebanese Centre for Policy Studies and a Scholar at the Carnegie Middle East Centre. Dr Nakhle has published two books and numerous articles and writes for academic journals as well as newspapers and magazines. As Energy Expert, she is a regular contributor to the Geopolitical Information Service. She lectures, among others at the Graduate School of International and Development Studies in Geneva, and is a sought after commentator on energy and geopolitics in the press and on TV. Dr Nakhle is the founder and director of the non-for-profit organisation "Access for Women in Energy".

What are the main challenges facing Lebanon's hydrocarbon industry?

The biggest challenges today are: first the political uncertainty which remains high and imposes an additional risk premium for international investors. The other challenge is commercial. Even when the oil and gas prices were high, investment in the upstream oil and gas sector in Lebanon did not materialise. Under today's low price environment, investors are much more selective in terms of allocating their limited resources.

Will Lebanon further delay the launching of its first licensing round and what should be done to speed the process?

This is a question that only the politicians can answer. A key step is of course to finalise the pending decrees, get them approved by parliament, and update important laws such as the income tax law, accordingly.



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Any source of additional export revenues should, in principle, benefit the Lebanese economy, starting with improving the balance of payments especially if the burdensome fuel import bill is alleviated, in addition to investment and job creation all along the oil and gas supply chain.

Which energy producing country could serve as an example for Lebanon to develop a sound fiscal strategy?

A fiscal strategy should be tailored to each country's conditions and objectives. Lebanon should of course learn from other countries' experiences – their successes and failures, but it should not simply copy and paste other countries' models. On the contrary, Lebanon should design a strategy that allows it to achieve its wider objectives while taking into consideration its own specific conditions such as geology, availability of infrastructure, domestic market.

In a nutshell, what should be the main considerations for Lebanon to adopt a suitable fiscal regime?

A regime that achieves a balance between generating a fair share of revenues to the nation while encouraging sustainable investment. This is easier said than implemented especially there is no ideal tax regime in the world. Besides how do you defined what is fair what is not. As mentioned earlier, while it is important to learn from other countries' experiences, a simplistic 'high level' comparison that does not take into consideration various details will generate misleading results. When it comes to the fiscal regime the devil is in the detail.

Lebanon has selected the competitive bidding procedure to allocate licenses for offshore explorations. Do you believe Lebanon, with a track record of corruption, will be able to commit to transparency standards?

The track record, while important, does not necessarily dictate the future. The key is for the Lebanese authorities and officials to show a commitment to the transparency of the allocation process. An allocation process can look perfect on paper but when it comes to implementation the outcome can well deviate from the original intent if the process is not conducted with a high level of professionalism and transparency.

Do you believe that Lebanon must establish a sovereign wealth fund to manage the inflow of future gas revenues? Will Lebanon be at risk of suffering from the Dutch Disease and if so, which industries may be affected?

Having a SWF has become fashionable in the developing world, but it is not an essential element to have in order to avoid the resource curse. Many countries have succeeded in doing so without having a SWF. That said, the SWF will of course help but again the key is the transparent management of the fund and which should be free from any political interference.

Do you believe that the various deals being discussed between Israel, Cyprus and regional neighbours (such as Jordan and Egypt) may affect Lebanon's ability to enter the export market?

Not necessarily. Lebanon's first priority should be to alleviate the dependence of its domestic market on fuel imports and solve the chronic problem of power cuts which have damaged its economy and productivity. As for the export market, indeed competition will be tougher in different regional markets. The demand for gas however is expected to continue to grow in Europe and Asia so I don't think a new producer will have a shortage of buyers. The main issue will be pricing.

Natural Gas Europe welcomes all viewpoints. Should you wish to provide an alternative perspective on the above article, please contact editor@minoils.com

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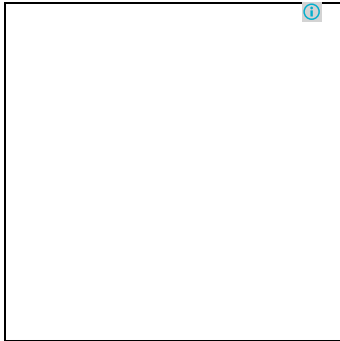


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