**U.S. on Lebanon’s Gas Resources: Too Early to Care?**

By LOGI, Samer Atshan 9/15/2016

On September 8th, a U.S. congressional joint subcommittee held a [hearing](https://foreignaffairs.house.gov/hearing/joint-subcommittee-hearing-eastern-mediterranean-energy-challenges-opportunities-u-s-regional-priorities/) to discuss Eastern Mediterranean energy. The subcommittee was formed from the Committee on Foreign Affairs’ Subcommittee on the Middle East & North Africa and the Committee on Science, Space, and Technology’s Subcommittee on Energy. During the 90-minute hearing, the subcommittee listened to statements made by representatives from the Department of State and the Department of Energy, through which, Lebanon was only mentioned three times. In his opening statement, Amos Hochstein, the Special Envoy for International Energy Affairs representing Department of State, referred to Lebanon’s offshore resources as a potential discovery. It is worth mentioning that Hochstein had visited Lebanon several times over the past few years to negotiate an agreement over the maritime border dispute between Lebanon and Israel.

**Delays in Lebanon’s Oil and Gas Industry**

That Lebanon was hardly mentioned should not come as a surprise. The congressional hearing was an update on the latest energy developments in the region. While neighboring countries Egypt, Israel, and Cyprus have already made discoveries, petroleum resources in Lebanon remain a prospect. Although offshore seismic data indicate likelihood of presence of natural gas, Lebanese authorities have not yet moved towards exploring waters to declare an official discovery. In the world of oil and gas, such seismic data are a good indication of resource potential, but alone are not confirmation.

Figure 1 - Congressional Hearing on Energy Developments in the Eastern Mediterranean

There are other reasons, however, the Department of State might see Lebanon as only a potential producer. The main hurdles to the development of Lebanese gas resources were political as seen in the report[[1]](#footnote-1), [“Natural Gas Discoveries in the Eastern Mediterranean](https://www.fas.org/sgp/crs/mideast/R44591.pdf)”, which was issued mid-August by the Congressional Research Service. Lebanon is at a virtual standstill, the country has not been able to elect a president for 2+ years, the parliament has issued legislation that only enable the government to intervene in cases of emergency leaving its role restricted to crisis management rather than enabling it to plan ahead. There has been no agreement thus far which companies to grant exploration rights to. Moreover, spillover effect from the Syrian civil war further complicates the political situation locally and regionally. Searching for oil and gas offshore Lebanon is seemingly low on the list of the country’s priorities.

**Regulatory Certainty: Key Requirement**

Regulatory (un)certainty was a recurring theme during September’s congressional hearing. As explained by Hochstein, to create an appropriate business climate for the private sector, geopolitical disputes need to be addressed and opportunities for economic integration need to be realized. This was recently evidenced in Cyprus where a proposed gas pipeline connecting Israel to Turkey was blocked. Although Cyprus could be a hub for gas trade, the Greek Cypriot government is in opposition to this project until a settlement could be reached with Turkey over Cyprus’ exclusive economic zone (EEZ) and Turkish occupation of the northern part of the island. At the same time, Turkey looks to claim a share of Cypriot gas. The Cypriot problem was seen within the hearing as an area where U.S. support is crucial to the advancement of a resolution. Hochstein also emphasized, however, the importance of internal regulatory certainty within Eastern Mediterranean countries and mentioned how it cost Israel “years in development” of its Leviathan field. This sets an example for Lebanon today where regulatory hurdles have blocked the start of exploration. Lebanese authorities need to address their challenges early on and set a roadmap that minimizes regulatory uncertainty and ensures proper resource governance.

It is clear that U.S. foreign policy favors petroleum exploration in the region. The benefits as explained by Chairman of the Subcommittee on the Middle East and North Africa, Ileana Ros-Lehtinen, include: bringing stability to the region through energy cooperation between neighboring countries, and providing energy security to American allies by delivering energy alternatives to southern and central Europe that is predominantly dependent on Russian gas. It is, in some sense, a matter of U.S. national security that can be secured through regional energy security.

**U.S. Vision on Eastern Mediterranean Gas**

Cooperation on infrastructure and markets is essential between the different countries, Hochstein said, and is presumably how the relationships may be redefined. Steered by the Americans, this cooperation may play out on different levels. First, gas fields offshore Israel could be connected by pipeline to Jordan, Egypt, Turkey, or Palestine. Cyprus and Turkey could also benefit by partnering in such a pipeline. Transporting Cypriot gas to Turkey could diversify Turkey’s supply mix and give Cyprus – as well as Israel – access to the European market through existing Turkish pipelines. Similarly, Egypt could cover local demand and provide access for neighboring countries to global liquefied natural gas (LNG) markets through the country’s underutilized LNG terminals. Regional cooperation, from the American’s perspective, would enhance local economies and address security concerns amongst the neighboring countries, all while decreasing the dependence of Europe on Russian gas.

Figure 2 – A Map of East Mediterranean Oil and Gas

When prompted during the Q/A session on what is most likely to happen first, Hochstein pointed to the area where economic incentives have aligned with geopolitical conditions and where a project is underway: a pipeline between Israel and Jordan. The Arab Gas Pipeline, connecting Egypt to Israel, is not available because of an ongoing legal dispute in international arbitration court. The next favorable stepthen, pending a resolution to the Cypriot problem, might be the pipeline from Israel via Cyprus to Turkey and Egypt. When further prompted about the outcome if unification of Cyprus does not occur, Hochstein regarded exporting Israeli and Cypriot gas through Egypt LNG terminals. One other option, noted by Jonathan Elkind, assistant Secretary for International Affairs representing the Department of Energy, may be to transport Israeli gas through a subsea pipeline to Greece as an outlet to the European market. However, Elkind maintained the challenging financial nature to this option.

Figure 3 - Amos Hochstein Answering Questions from Subcommittee Members

The region may soon see rapid development of already discovered resources, but that may require continued American support to resolve the many lingering issues. New relationships will be forged and cooperation might be the norm. Lebanon is not expected to be an oil and gas producer until it bypasses regulatory hurdles. This might take years. Will Lebanon arrive too late to the show when the decisions have already been made? Will unfavorable market conditions force themselves on the late entrant?

References

U.S. Library of Congress. Congressional Research Service. Natural Gas Discoveries in the Eastern Mediterranean, by Michael Ratner. R44591. 2016.

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1. U.S. Library of Congress, Congressional Research Service, *Natural Gas Discoveries in the Eastern Mediterranean*, by Michael Ratner, R44591 (2016). [↑](#footnote-ref-1)