



**LEBANON IS BECOMING A NEW OIL AND GAS
PRODUCER UNDER THE WATCHFUL EYES OF ITS
CIVIL SOCIETY**

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ABSTRACT

This short article is an overview of the recent oil and gas developments in Lebanon with a focus on the role of civil society in holding the decision makers accountable. From one side, it highlights the governance challenges and political uncertainties facing Lebanon. Corruption, ineffective oversight bodies and political deadlocks are some of the many challenges facing the country. From the other side, it puts emphasis on the role of civil society as the alternative oversight body capable of overseeing the management of the sector. A strong and informed civil society has a role in taking a seat on the Extractive Industries Transparency Initiative (EITI) multi-stakeholder group, in assisting the government in formulating policies and in informing the citizens about the many complex issues related to the oil and gas sector in the country.

Keywords: Lebanon, Oil and Gas, Civil Society, Extractive Industries Transparency Initiative (EITI), Lebanese Petroleum Administration (LPA), Leviathan, Karish, Tanin.

INTRODUCTION

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Lebanon aims at signing the first oil and gas contracts with international oil companies by the end of this year. Ten years have passed since the Lebanese government drafted its hydrocarbons policy paper in 2007 and the citizens are still waiting for oil and gas. In the meantime, the neighbors of Lebanon, Cyprus and Israel have seen interesting developments in their respective sectors. Cyprus has just finalized its third licensing round while Israel started producing from the Tamar field and it is on the verge of starting production from its Leviathan field that is estimated to contain 20 tcf and from the smaller fields Karish and Tanin close to the Lebanese borders. It would be fair to qualify the oil and gas sector developments in Lebanon as a rollercoaster ride. The country witnessed ups and downs with political deadlocks that delayed the whole process.

However, this delay was not all negative. It has given time for civil society to be engaged and involved in some of the developments and some of the discussions taking place in the country. More importantly, it gave time for some specialized non-governmental organizations (NGOs) to emerge. Building on the long history of strong and engaged civil society in Lebanon, and with the culture of freedom to act for NGOs, it is expected for civil society to play an active and constructive role in the oil and gas sector in order to hold the decision makers to account.

1. OIL AND GAS DEVELOPMENTS IN LEBANON FROM 2007 TO 2017

Since 2007, Norway has been supporting the oil and gas sector in Lebanon. It was commissioned to assist in drafting the Offshore Petroleum Resources Law (OPRL) ratified by the Lebanese parliament in 2010 and in building the institutional capacities of the Lebanese Petroleum Administration established in 2012¹.

The Lebanese Petroleum Administration (LPA) is the regulatory body responsible for managing the oil and gas sector². It is divided to six units such as the strategic planning, technical and engineering, geology and geophysics, legal affairs, economic and finance and quality, health, safety and environment. Its duties revolve around planning, designing, managing and overseeing matters related to the sector. The LPA works under the supervision of the minister of energy and water. All major decisions related to the sector are made at the level of the council of ministers.

Investing in seismic surveys in offshore Lebanon was one of the earliest strategic decisions taken by the Lebanese government. It contracted the

¹ For more details on the Norwegian support to Lebanon's oil and gas sector see <https://www.norad.no/en/front/thematic-areas/oil-for-development/where-we-are/lebanon/>

² For more details on the LPA check the website on <http://www.lpa.gov.lb/>

Norwegian company Petroleum GeoServices (PGS) in addition to the British company Spectrum to carry out 2D and 3D seismic surveys covering more than 80% of the Lebanese coast. That decision was taken to encourage international oil companies and give them incentives through geology to invest in Lebanon despite the many uncertainties and risks. The LPA has done the interpretations of these surveys, which is believed to be helpful for the companies in their exploration phase. Lebanon was the first country in the East Mediterranean (EastMed) basin to conduct 3D surveys.

The other strategic decision taken by the government was to opt for the pre-qualification process before launching the first licensing round. Again, Lebanon was the first country in the EastMed to choose this path. In 2013, the pre-qualification round resulted in retaining 46 companies out of the 52 applications³. Among the list were 12 operators such as ENI, Total, Statoil, Exxon and Chevron, and 34 non-operators from Europe and Asia. The criteria set for the pre-qualification were high in order to attract the most experienced; it was required for the operators to have experience in deep water drilling and a capital of 10 billion USD dollars and the non-operators were required to have a capital of 500,000,000 USD dollars. Opting for a pre-qualification process and later on for a competitive bid were considered as a positive step to attract major companies with experience to invest in the country.

In parallel, the Lebanese petroleum administration was putting together the final blocks of the legal framework needed at that time to launch the first licensing round: the decree to delineate the maritime blocks and the decree of the exploration and production model contract and tender protocol. The decrees needed to be ratified at the Council of Ministers (CoM), but before these decrees could make it to the table of the CoM, the prime minister at that time Najib Mikati resigned and the caretaker government was not able to approve the decrees. The process stopped. This was the beginning of a four-year deadlock in the nascent sector due to the political deadlock in the country. There were disagreements over the parliamentary electoral law which ended up with extending the term of the parliament for four years, the same parliament was unable to elect a new president and the new government under the premiership of Tamam Salam was paralyzed. The prime minister formed a ministerial committee to discuss the pending decrees and pass on their recommendations to the cabinet, but the committee met twice and nothing came out of it⁴. It was only on December 2016, after the election of the new president of the Republic Michel Aoun, and after forming the new government under the premiership of

³ For more details on the qualified companies check here <http://www.lpa.gov.lb/prequalification.php>

⁴ <http://www.albawaba.com/business/back-spats-over-lebanons-oil-and-gas-exploration-863654>

Saad Hariri, that the decrees were approved in the Cabinet. It was the first decision taken by the new government. Public opinion differed. While some thoughts that it was about time to ratify the decrees and relaunch the process, others believed that there were some under the table deals between the politicians that made them pass the decrees in one meeting, without giving time to the new ministers to go through 200 page documents⁵. Despite criticism, the new government called for a new round of pre-qualification that resulted in 8 new companies being qualified among them Qatar Petroleum and Algeria's Sonatrach; and the new minister of energy and water announced the new roadmap for the sector. Qualified companies will have till September 2017 to apply for the first licensing round, the decision will be taken by the CoM in October and the names of winning companies will be announced in November 2017.

2. GOVERNANCE CHALLENGES IN LEBANON

Today, challenges facing Lebanon are greater than the opportunities the oil and gas sector could provide. Lebanon's political system is unstable, oversight institutions are weak, corruption is a reality, and security risks are high.

Since the assassination of the former Prime Minister Rafik Hariri in 2005, the country has been going through political instability. Political parties were divided to the extent that the parliament was unable to elect a president to the Republic after Emile Lahoud ended its term. Moreover, political parties were unable to agree on an electoral law to hold the parliamentary elections in 2009. The Qataris had to interfere and to invite all political parties to Doha to agree on the new president and electoral law⁶. The government under the Doha agreement did not last long⁷ and the newly formed government under the premiership of Najib Mikati was criticized to be pro-Iran. When his government resigned two years later, the new government under Tammam Salam took ten months to be formed. During this period, the care taker government was paralyzed and could not take decisions and that affected the oil and gas development as mentioned earlier. Again, in 2013, the government was unable to agree on a parliamentary electoral and therefore the elections did not take place- and until now after four years, the country does not have a new parliament. When the term of the president Michel Suleiman ended in 2014, the parliament which had extended its mandate was unable to elect a new president until late 2016. For almost three years the country was without a president and with an undemocratic parliament. The most alarming part was the ability of the political parties to paralyze all the institutions in the country. For months, the

⁵ <http://www.lcps-lebanon.org/featuredArticle.php?id=100>

⁶ https://en.wikipedia.org/wiki/Doha_Agreement

⁷ <http://www.aljazeera.com/news/middleeast/2011/01/2011112151356430829.html>

parliament would not convene, laws get stuck in committees, and the government would meet without taking any crucial decisions or without developing any new laws for the benefit of the country. One example how this will harm the oil and gas sector is portrayed in the oil and gas taxation law. In December 2016, after the government passed the two decrees, it announced that it will send the oil and gas taxation law to the parliament to be ratified. Unfortunately, the first licensing round has been launched and the taxation law hasn't been ratified by the parliament that hasn't convened because of the political dispute over the new electoral law for the parliament. This type of political uncertainties will weight in the negotiations process between the government and the IOCs, especially that all major decisions related to IOCs or the sector in general are to be taken at the COM level; therefore, any deadlock at that level could lead to a deadlock in the sector as mentioned above.

Lebanon was ranked 136 over 176 with a score of 28 over 100 on the 2016 Corruption Perception Index produced by Transparency International.⁸ Moreover, the trash crisis unveiled the corruption network in the country⁹. It became clearer to the citizens how politically exposed persons get favors and how public procurement is not transparent¹⁰. To the extent that during one of the trash protests against the government a protestor was holding a sign that read: "A government that is unable to collect its trash is unable to extract oil and gas". The trash crisis was an eye opener and I proof of the failure of the government to provide services or even to take decisions that benefit the general public. It enforced the beliefs that existed between citizens that all benefits of the gas sector will go to the politicians.

Security risks can hinder the development of the sector. Lebanon and Israel are in a state of war. Moreover, Lebanon and Israel are faced with a maritime border dispute in the South of Lebanon. Back in January this year, the Lebanese government declared the blocks 8, 9 and 10 in the South open for bidding. Mainly, block 8 and 9 are under the disputed zone. Israel reacted and it declared its intention to unilaterally draw its maritime borders which will include the disputed areas. The reaction from the speaker of the Lebanese parliament Nabih Berri came quick and declared that "If [Israel] continues with its expansionist plot through the government and the Knesset, that means that the spark of war is looming on the horizon"¹¹. The constant reminder and threat of war from the Israeli side will have its effect on the sector not just on the licensing round. After all, Lebanon and Israel are in competition when it comes to selling the gas to the

⁸ https://www.transparency.org/news/feature/corruption_perceptions_index_2016

⁹ <http://www.reuters.com/article/us-lebanon-protests-crisis-insight-idUSKCN0R70GO20150907>

¹⁰ <http://www.business-anti-corruption.com/country-profiles/lebanon>

¹¹ <https://www.ft.com/content/0250eed4-1082-11e7-b030-768954394623>

region or to Europe; and it is in the favor of the Israelis to see Lebanon failing in developing its sector.

The governance and security challenges are high and the fear of mismanagement, corruption and nepotism in the oil and gas sector makes the role of civil society even more important. In the absence of the main oversight body which is the parliament (either because it does not have legitimacy- for extended terms, or because it is passive in holding the government to account and to properly question its policies and decisions), the role of the civil society as a credible and informed oversight body becomes crucial.

3. ROLE OF CIVIL SOCIETY

Civil Society Overseeing the Management of the Oil and Gas Sector through the Extractive Industries Transparency Initiative (EITI)–Oversight

At the beginning of this year, on January 25, the Lebanese government announced its intention to sign up to the Extractive Industries Transparency Initiative (EITI)¹², it named the minister of energy and water as a champion to the initiative who will oversee the implementation and announced its willingness to work with civil society for a transparent and effective management of the oil and gas sector in Lebanon. EITI is the first and one of the leading international initiatives that calls for transparency in the non-renewable energy sector. It is the first initiative that has created a body called the multi-stakeholder group (MSG) which includes representatives of governments, companies working in the country and civil society to oversee the sector management. It is the most powerful initiative that gives a clear and legitimate role for civil society to sit on the table with the government and companies to frame the debate around natural resources. The idea of the initiative was launched on the principle that the natural resources belong to the people and should benefit all the citizens of the countries where the resources are found and people are entitled to know how their resources are managed by the state.

The EITI is a voluntary initiative. States sign up to it at will; and based on the commitment of all member states to adhere to the principles of disclosure of information related to the industry, on creating public awareness and on facilitating dialogue on the best ways to manage the resources and the revenues.

It was launched in 2003 in London. Its secretariat which is in charge of overseeing the implementation of the initiative all over the world is based in Oslo. At the beginning, there were 2 main components to the initiative. The first component was for companies to disclose payments to governments and

¹² For more on what the EITI is check <https://eiti.org/>

governments disclose receipt of payments from companies. The second component was the creation of the MSG composed of representatives from government, companies and oversight bodies- specifically civil society- which oversee the implementation of the initiative. All information gathered by professional auditors were put in a report published on a website created specifically for the initiative in the country of implementation and afterwards the Secretariat is informed of the publication.

In 2013, after 10 years of implementation, the EITI secretariat introduced major changes to the initiative to make it more comprehensive and understandable by the broad public. The 2013 EITI standard introduced more requirements to publish information related not only to the revenues but covering all the value/decision chain. Nowadays all reports published under the EITI include information related to 1) Licenses & contracts such as licensing information, State ownership, production contracts, and beneficial ownership; 2) production data; 3) tax collection such as companies payments, government receipts, State owned enterprises payments, and transit payments when existing; 4) revenue allocation such as transfers to local government/authorities; 5) expenditure management such as company social and infrastructure investments. The findings are communicated to create public awareness and debate about how the country should better manage their resources.

The EITI aims at building trust between governments and their citizens, creating space for a national debate about reforms related to the sector and beyond, attracting the right kind of investors and IOCs, determining who is doing what and keep track of the money, improving the efficiency of tax collection and facilitating access to information in a simple and comprehensive form.

The Lebanese Petroleum Administration (LPA) showed interest in the EITI by 2014 and approached the Natural Resource Governance Institute (NRGI)¹³- a leading international non-governmental organization to produce a document on the feasibility of implementing EITI in Lebanon. NRGI produced the paper and sent it to the LPA and presented the findings during the LPA's conference in November 2014 in Beirut¹⁴. Then NRGI facilitated meetings with the EITI secretariat and the LPA in Beirut and some LPA members had several meetings with the EITI secretariat in Oslo to discuss details. At the same time, there were demands from political parties such as the "Kataeb" to sign up to EITI as a guarantee to a transparent process¹⁵. Some voices from civil society were less enthusiastic about EITI, they considered it as a positive step but not

¹³ <https://resourcegovernance.org/>

¹⁴ To watch the intervention, check <https://www.youtube.com/watch?v=ZJhVBDCad0k>

¹⁵ <https://twitter.com/samygemayel/status/688296002516729858>

enough to guarantee transparency¹⁶. It is important to note that EITI alone is not enough to secure and guarantee transparency and effective management of the sector. Moreover, signing up to EITI should not be used as a “cover” to keep doing business as usual. The EITI is most successful when there is a political will to disclose information to the public and use this participatory initiative to reform the sector and more broadly to reform a system that is weak.

Now, civil society has a golden opportunity, through the EITI to get involved in the sector management from the beginning. Non-Governmental Organizations (NGOs) and Civil Society Organizations (CSOs) engaged in natural resource matters directly or indirectly will have to get together to form a coalition. The aim of the coalition is to build the capacities of its members on issues related to oil and gas and to hold the government accountable. Mainly, the representatives of civil society at the MSG should come from this coalition. Currently, a nucleus of such a coalition exists and the declaration of the government to join the EITI has given the incentives to CSOs and NGOs to expedite to formation of such a coalition. They have till the end of this year to recruit members, develop their internal bylaws, and set a system for internal elections that will allow for representatives to sit on the MSG.

On the EITI MSG, civil society representatives will be the watchful eyes of the citizens, they will be able voice the concerns of the population through the multi-stakeholder dialogue and play the role of the moderator between the government and the companies from one side and the citizens from the other. Moreover, civil society will have some influence over the information that needs to be disclosed to the public, therefore bring more transparency and clarity to diffuse tension between different stakeholders.

Civil Society as Source of Credible Information–Providing Information

Civil society is positioning itself as the credible source for information regarding the oil and gas sector. This is a new sector and citizens have little understanding and knowledge of how the sector functions and should be managed. There are many complex notions such as different types of contracts, fiscal terms, gas and oil sale agreements, the impact on the economy, consequences of volatility and social and environmental impact. Civil society is well placed to provide the simplified information and build the knowledge and capacities of NGOs, CSOs and the general public. Since 2013, The Lebanese Center for Policy Studies (LCPS) partnered with the Natural Resource Governance Institute (NRGI) to establish a regional extractive knowledge hub¹⁷.

¹⁶ <http://www.lcps-lebanon.org/featuredArticle.php?id=25>

¹⁷ <http://www.lcps-lebanon.org/activity.php?id=174>

The hub provides a ten-day course per year and releases research related to natural resources in the MENA. More than 50 Lebanese attended this course; they were members of NGOs or CSOs, advisors to political parties, journalists and public servants in ministries. The course provides them with a comprehensive view of major notions related to oil and gas. It is also a venue for networking between the different stakeholders participating and especially, it is the place where participants meet with the experts in the field.

Besides the course, LCPS released more than a dozen research related to challenges and opportunities of the sector in Lebanon¹⁸. These are public on the website of the organization and are easily accessible to whomever is interested in knowing about the sector. After each publication, LCPS organized a roundtable discussion between the experts, the public and NGOs to present the findings.

Moreover, newly established NGOs such as the Lebanese Oil and Gas Initiative (LOGI)¹⁹ and the Organization for Petroleum & Energy Sustainability (OPES)²⁰, which are energy focused organizations produce knowledge and information for the public. LOGI has been successful in producing simplified infographics explaining to the public complex oil and gas notions in Lebanon.

Civil Society as Technical Advisor–Policy Formulation

Since its establishment in 2012, the Lebanese Petroleum Administration (LPA) has been open towards civil society. They organized many meetings with NGOs and CSOs to discuss oil and gas developments, and its members were actively involved in events organized by universities, NGOs and syndicates. They were always ready to answer questions and clarify matters whenever needed. This approach makes it easy for civil society to interact and engage with the LPA on policy issues related to oil and gas. The Lebanese civil society has the capacities, the necessary expertise and network to assist the LPA and relevant ministries in policy formulations. In May 2017, the Lebanese Oil and Gas Initiative (LOGI) produced a gap assessment study on Lebanon's Strategic Environmental Assessment (SEA) that had been conducted by the government in 2013. It presented its recommendations to the officials, who have welcomed such an initiative and the result was the forming of a follow up committee that includes civil society, ministry of environment and the ministry of tourism to adopt and put in action the recommendations. This open approach to civil society should continue to build the trust between the government and the citizens regarding the management of the sector.

¹⁸ <http://www.lcps-lebanon.org/publicationsCategory.php?id=800>

¹⁹ <http://www.logi-lebanon.org/>

²⁰ <http://www.opeslb.org/>

4. CONCLUSION

On paper, the oil and gas sector management looks sound. It is the influence of the Norwegian support. But what will happen in practice? Is it possible for a corrupt political regime to manage the oil and gas sector in an effective manner? This is the concern nowadays in Lebanon. Therefore, an effective and strong role for civil society in overseeing the government management, in providing information to the public and in advising the government and parliament in policy formulation could be a guarantee for a better management. However, the fight to strengthen the oversight institutions in the country is a priority, and the best guarantee for an effective management and for hope that the Lebanese citizens will benefit from their resources.