



LEBANON AS THE NEXT EXPLORATION FRONTIER IN THE EASTERN MEDITERRANEAN

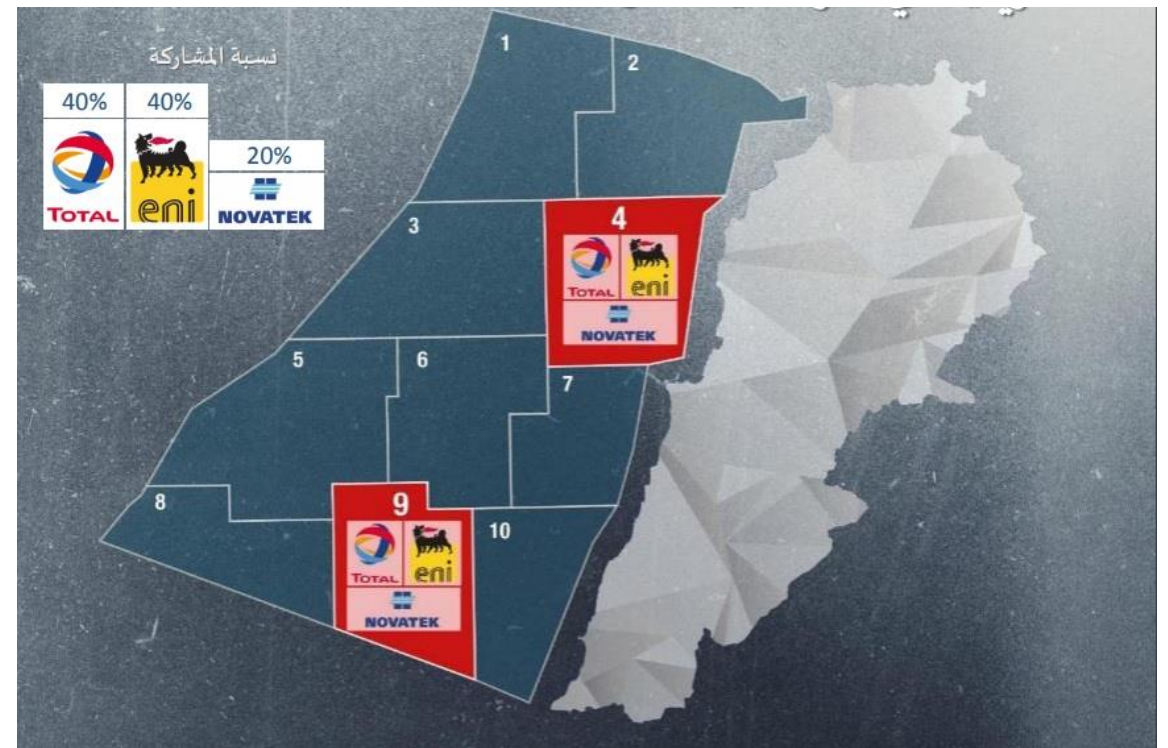
MONA SUKKARIEH, POLITICAL RISK CONSULTANT, CO-FOUNDER MIDDLE EAST STRATEGIC PERSPECTIVES

ENERGY INSTITUTE, OCTOBER 07, 2019



STEPPING INTO THE IMPLEMENTATION PHASE

- Dec. 2019: First offshore well, Block 4.
- Dec. 2017: Cabinet approves awarding 2 EPAs to a Total-led consortium for Blocks 4 and 9.
- Tender repeatedly delayed due to missing documents and political deadlock.
- Only two bids received, from the same consortium.



CONTEXT

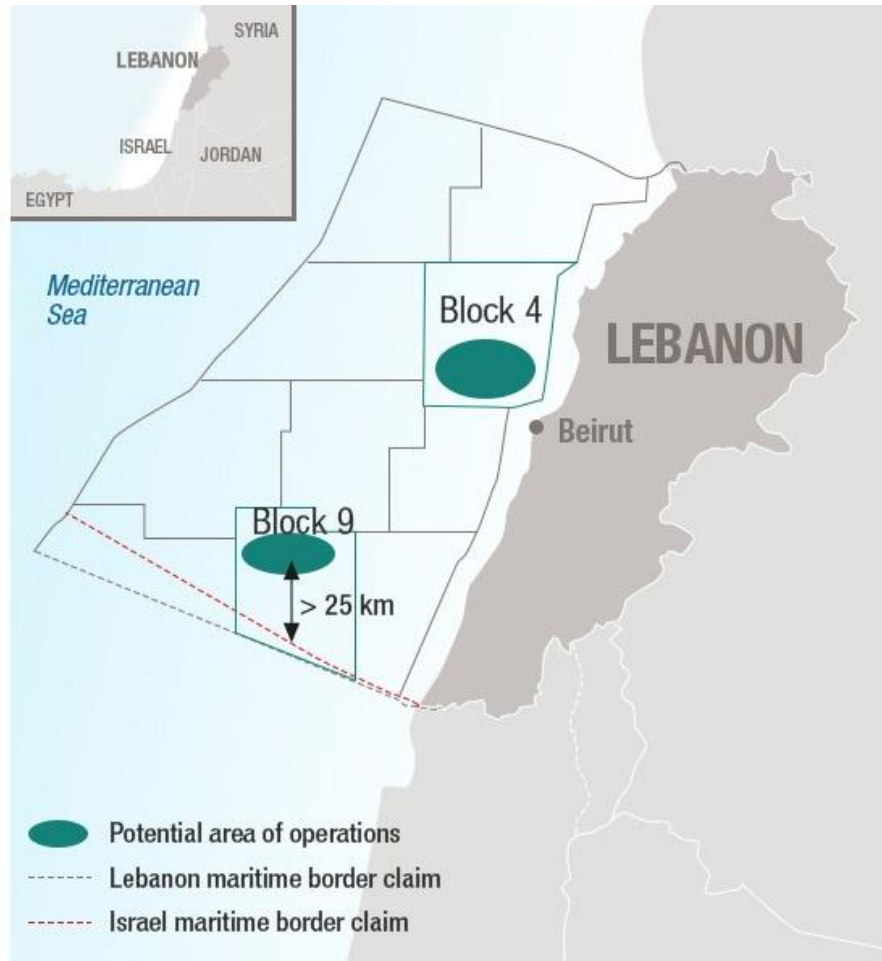
Lebanese factors

- Tender launched in 2013 despite an incomplete legal framework. Companies unable to bid.
- Relunched in 2017, once again despite an incomplete framework (petroleum tax law missing).
- Changing blocks on offer.
- Various blocks include disputed areas.
- 2010 law requires companies to form consortium of at least 3 companies to place bids.

Non-Lebanese factors

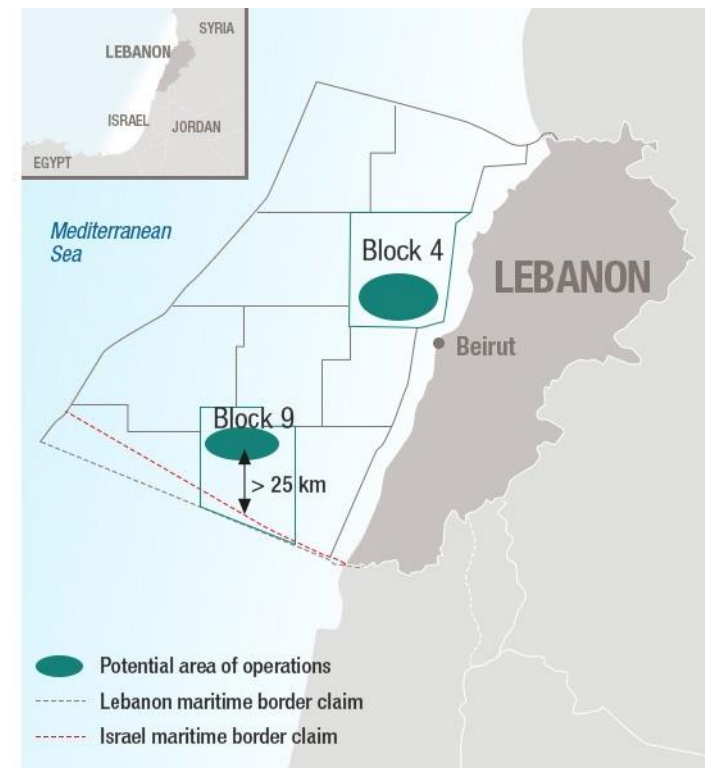
- Market conditions less favorable than in 2013.
- Difficulty to monetize East Med offshore resources.

EXPLORATION



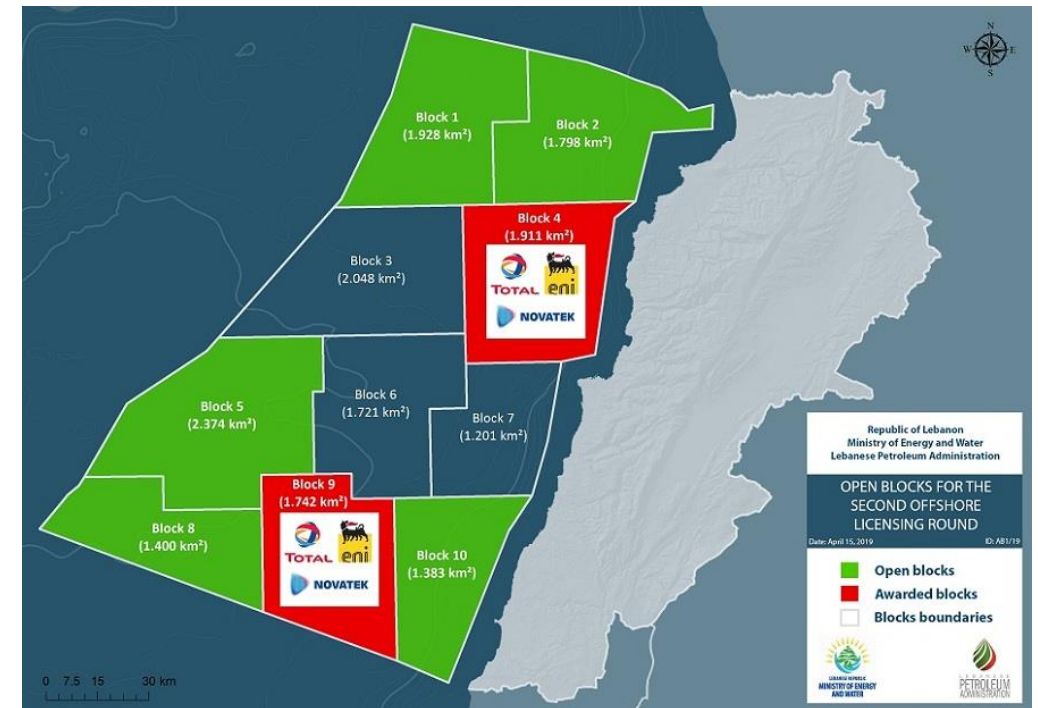
EXPLORATION

- Drilling in Block 9: Possibly in May 2020.
- Southern part of the block is claimed by Israel.
- According to Total, main prospects are located more than 25km from the disputed border.
- Diplomatic efforts to settle the dispute ongoing.



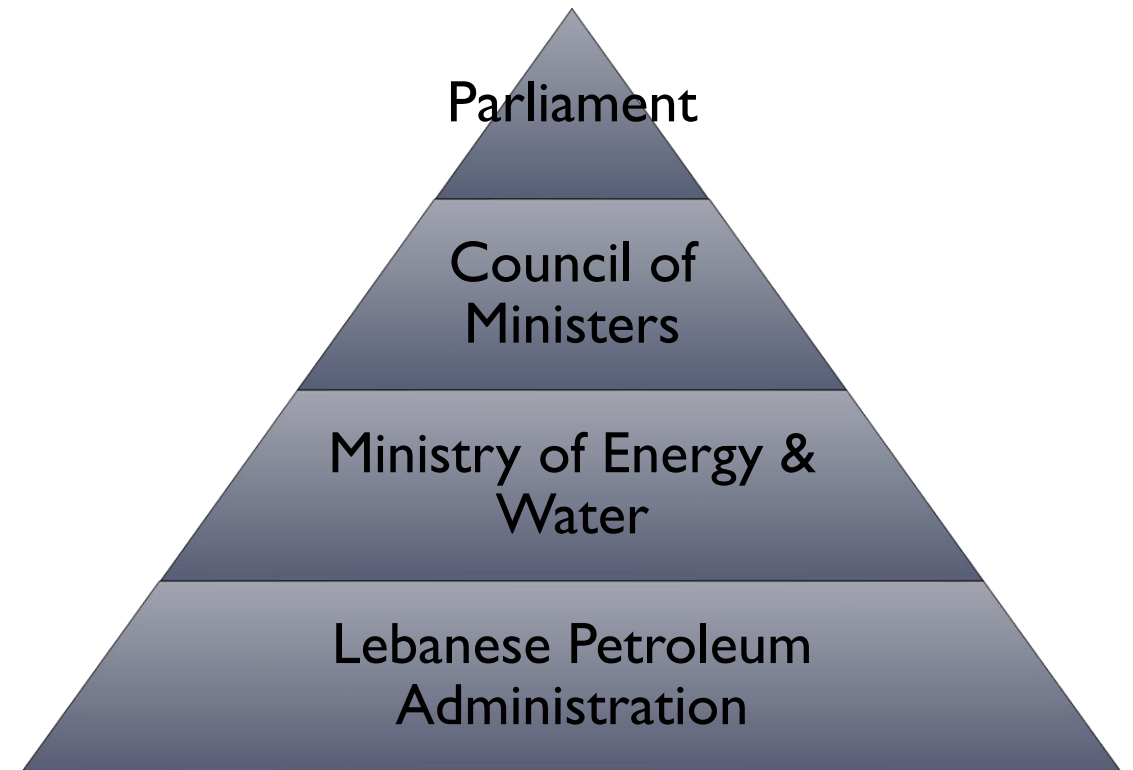
SECOND OFFSHORE LICENSING ROUND

- Keyword is stability
- Legal framework based on the 2010 Offshore Petroleum Resources Law & its implementation decrees.
- Largely similar to the framework introduced for the first licensing round.



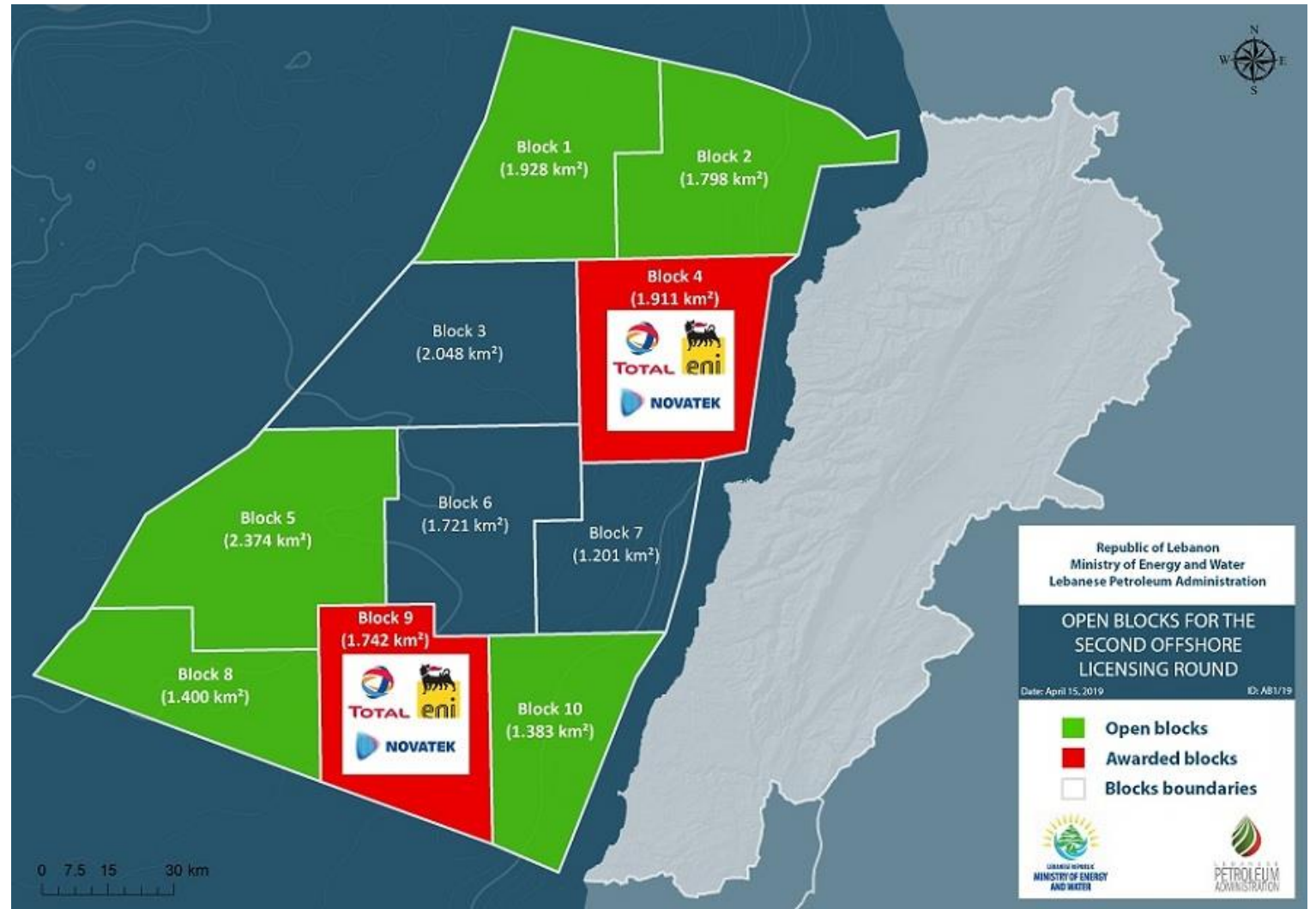
GOVERNANCE STRUCTURE

- Decision-making process: Most decisions taken by the Minister are based on the opinion of the LPA and require approval by the CoM.
- LPA: independent public institution under the tutelage of the MoEW.
- Formed in 2012. Mandate expired in Dec. 2018 but was extended by the Minister.
- Advisory body.
- Ambiguity plays in favor of the Minister and makes governance in the sector vulnerable to political dynamics.



SECOND OFFSHORE LICENSING ROUND

- 5 blocks on offer: 1, 2, 5, 8 and 10.
- Deadline: Jan. 31, 2020.
- No State participation



PRE-QUALIFICATION

Operators

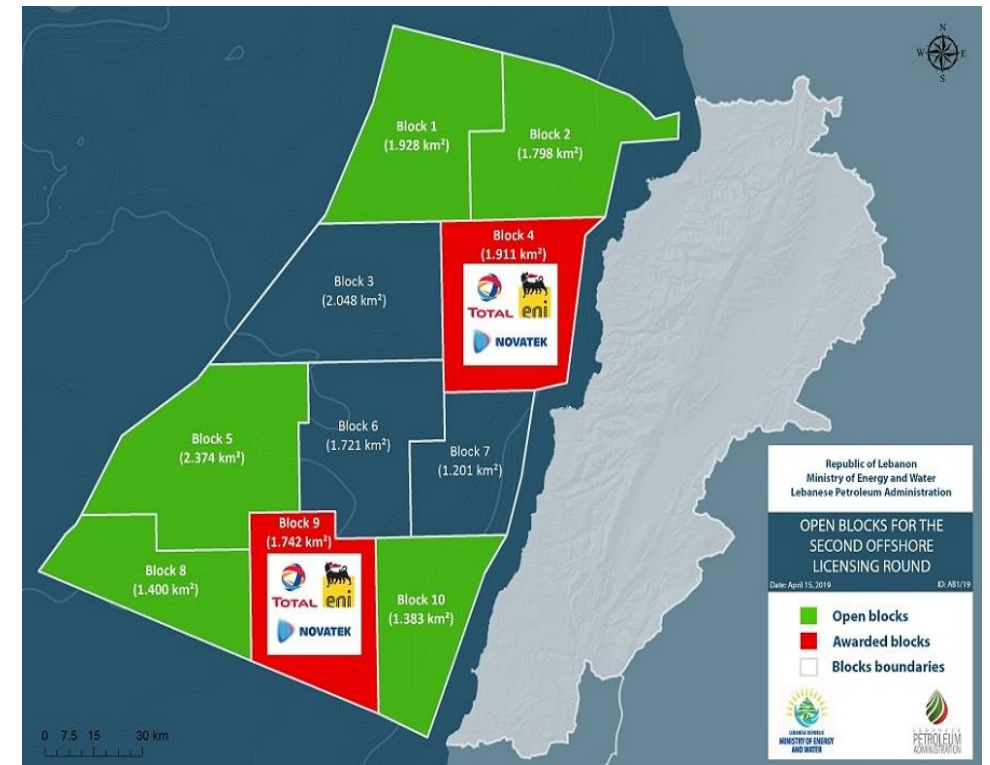
Legal	Financial	Technical	QHSE
<ul style="list-style-type: none">• Joint Stock Company conducting Petroleum Activities	<ul style="list-style-type: none">• Total assets of USD 10 Billion	<ul style="list-style-type: none">• Operatorship of at least one petroleum development in water depths over 300m	<ul style="list-style-type: none">• QHSE policy statement(s)• Established and implemented QHSE Management System (offshore E&P)

Non-Operators

Legal	Financial	Technical	QHSE
<ul style="list-style-type: none">• Joint Stock Company conducting Petroleum Activities	<ul style="list-style-type: none">• Total Assets of USD 500 Million	<ul style="list-style-type: none">• Experience in petroleum production	<ul style="list-style-type: none">• QHSE policy statement(s)• Established and implemented QHSE Management System (petroleum production)

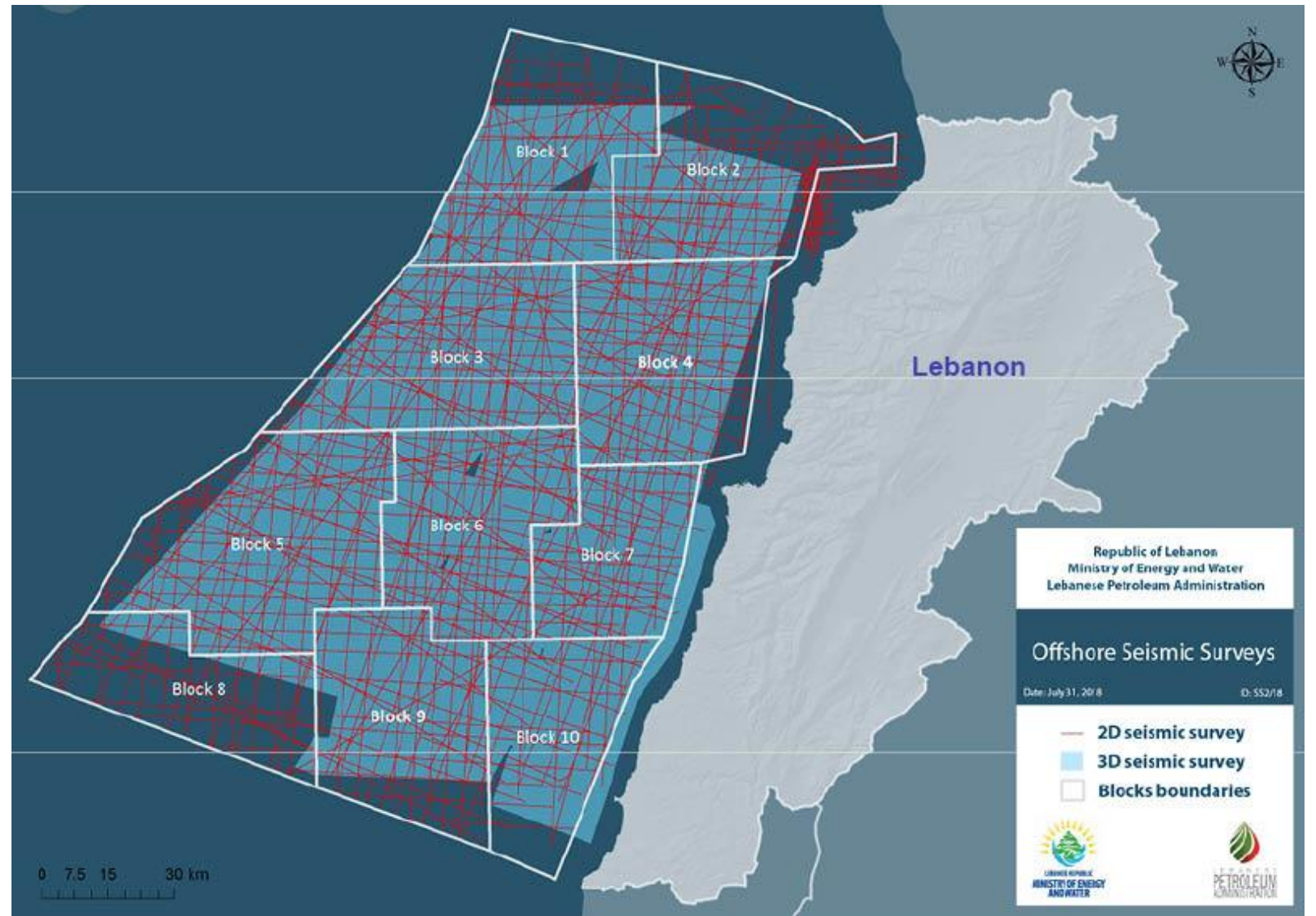
TIMELINE

- Deadline for submission of bids: 31st of January 2020.
- Evaluation of pre-qualification applications/Results: Third week of February.
- Evaluation of submitted bids: Mid-March.
- Negotiations: End of March.
- CoM decision: Mid-April.



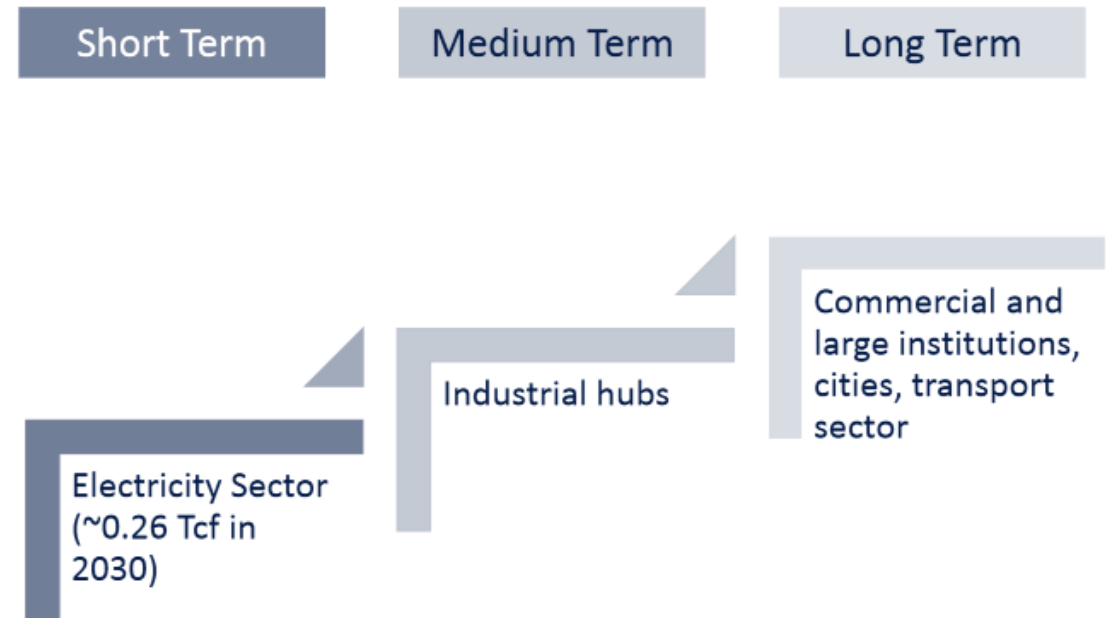
SEISMIC SURVEYS

- 2-D surveys: roughly entire offshore area
- 3-D surveys: 80%
- Border areas not well covered by 3-D surveys.



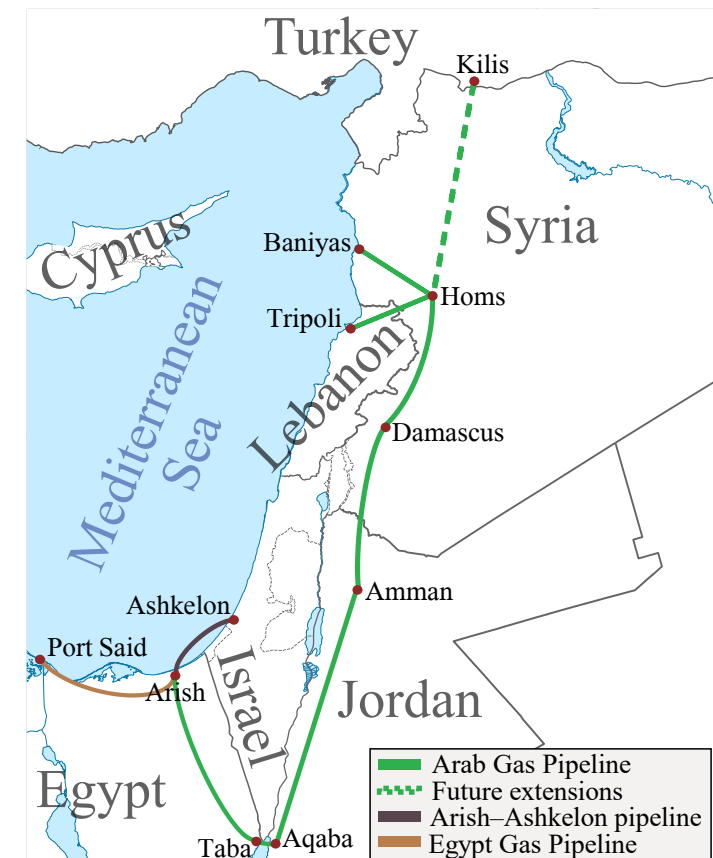
PRIORITY FOR THE LOCAL MARKET

- Local market: 0.26 Tcf by 2030.
- Chronic power shortages
Generation capacity: 2050 MW + 370 MW
Demand: 3500 MW
- EDL: \$1.5-2bn/year
- New electricity plan calls for building new gas-fired power plants.
- But, is the local market enough?



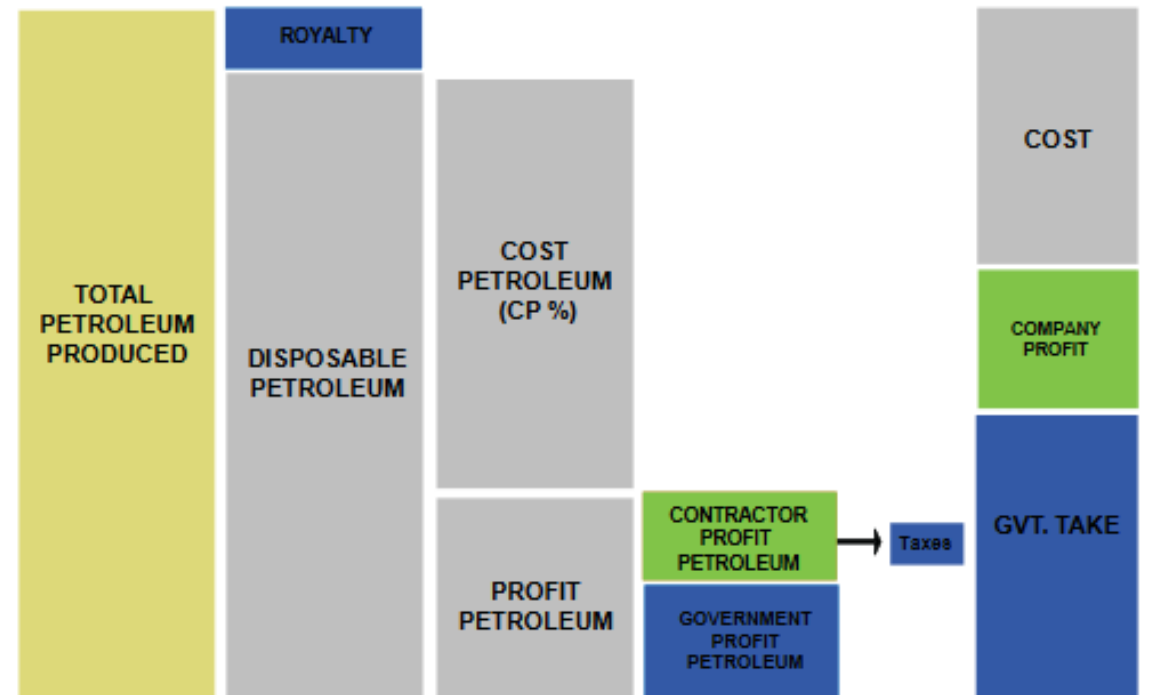
POTENTIAL EXPORT OPTIONS

- Little to no infrastructure
- Lebanese officials point to various possible routes:
 - Regional markets via the AGP
 - Turkey via an AGP extension or offshore pipeline
 - Tie-in to regional projects, for exp. in Cyprus
- But they all come with a host of challenges: commercial viability; political & security risks; available capacity etc.



EXPLORATION & PRODUCTION AGREEMENT

- Production sharing + Royalties & taxes
- State retains ownership of natural resources
- Companies bear exploration costs & risks
- Extracted petroleum is split between Royalties, Cost Petroleum and Profit Petroleum
- Cost petroleum recoverable up to a ceiling
- Profit Petroleum is split between the State and the companies. Companies' share is subject to taxes
- Revenues to be placed in a Sovereign Wealth Fund

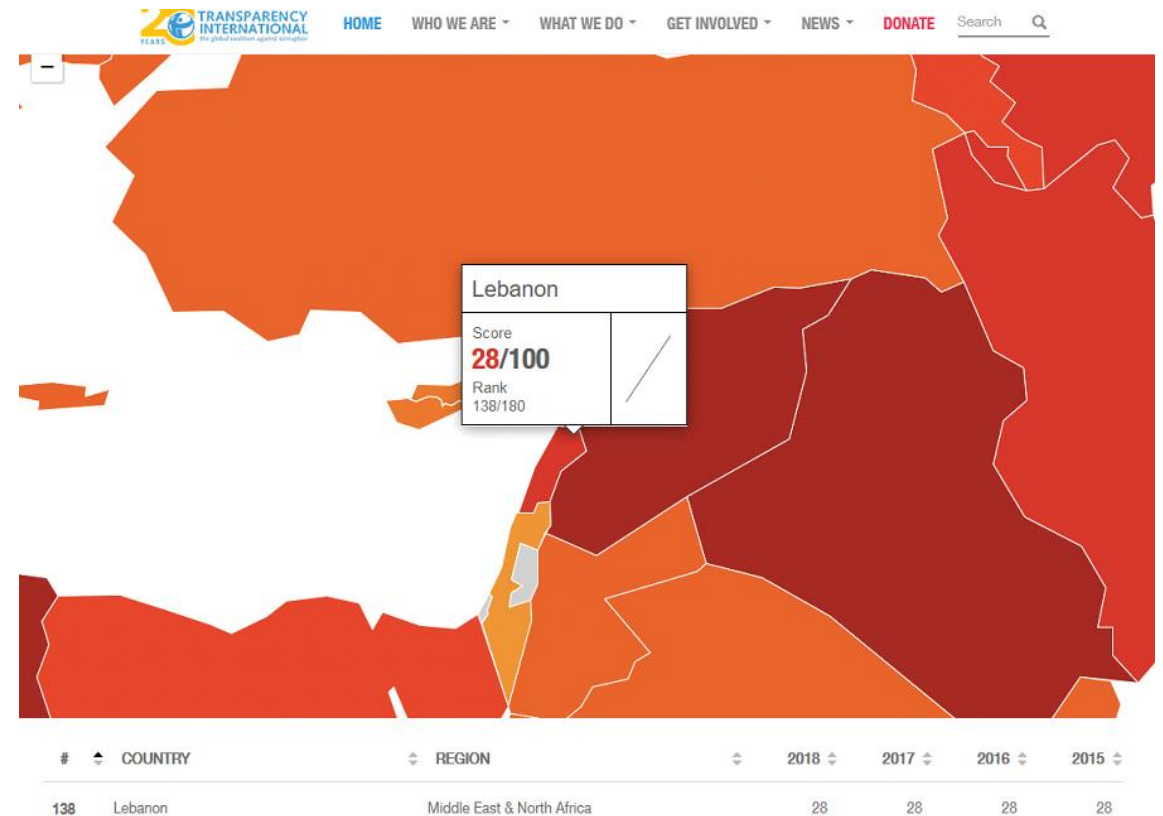


Lebanese Production Sharing Contract

MITIGATING CORRUPTION RISKS

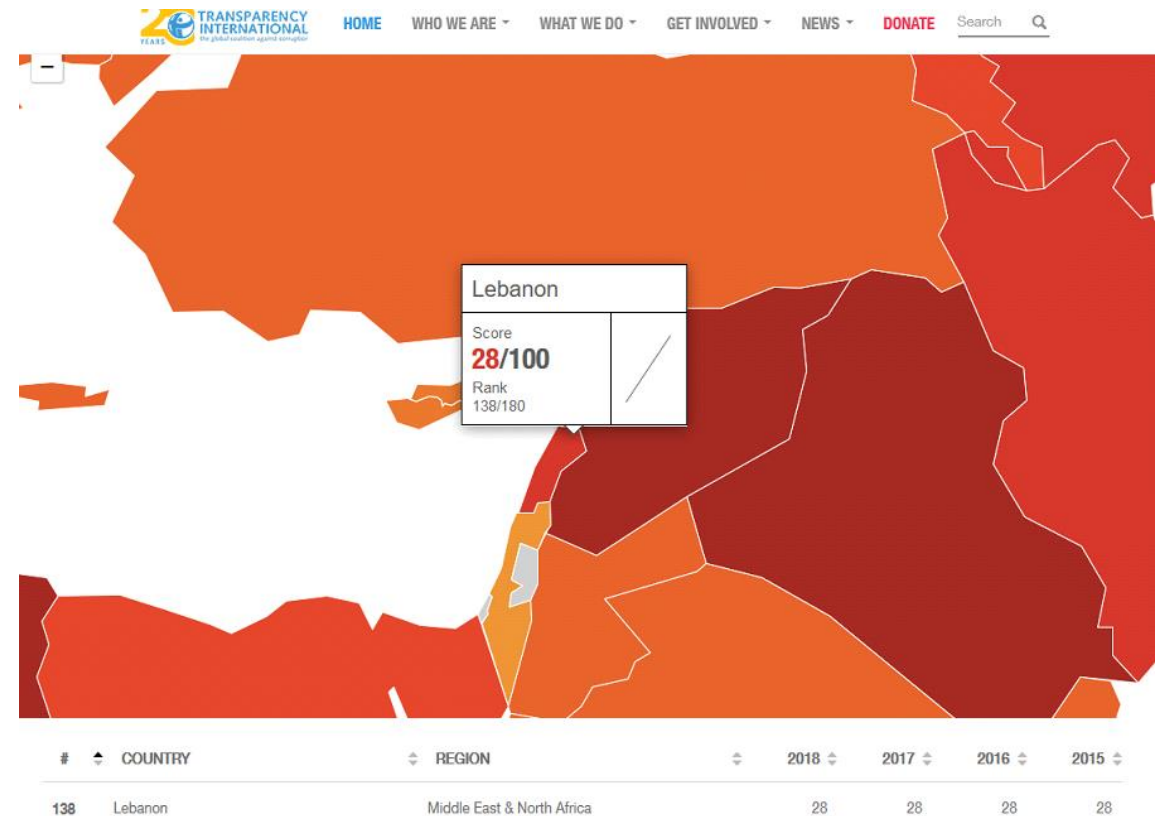
- High rate of corruption in public sector
- Oil & Gas sector widely perceived as lucrative
- High expectations
- Low level of trust among citizens in the government's ability to handle the sector

Yet...



MITIGATING CORRUPTION RISKS

- Modern legal framework
- Open & transparent bidding processes, including in sub-contracting
- Regular outreach to all segments of society
- Compliance with Access to Information law
- Law on strengthening transparency in the sector
- Expressed intention to join EITI
- Disclosure of revenues generated from sale of seismic studies
- Publication of signed EPAs
- Draft decree on beneficial ownership





MIDDLE EAST
Strategic Perspectives

MIDDLE EAST STRATEGIC PERSPECTIVES

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