

## The Lebanese Crisis and the Mirage of Natural Gas

by Benedetta Brossa

Lebanon is teetering on the brink of collapse as mounting economic, political and geopolitical pressures put unprecedented stress on the country's institutional – and deeply sectarianised – setup.

In October 2019, when large scale anti-establishment protests erupted across the country, what has been described as the Lebanese "Ponzi scheme",<sup>1</sup> a shady mechanism through which the country was able to attract continuous injections of foreign currency to sustain Lebanon's financial system with artificially inflated interest rates, came to a breaking point.

The value of the Lebanese lira dropped significantly, as have socio-economic conditions for large parts of the population. Then came the massive explosion in Beirut, the latest, severe

<sup>1</sup> Rosalie Berthier, "Grand Theft Lebanon", in *Synaps*, 14 April 2020, <https://www.synaps.network/post/lebanon-finance-economy-ponzi-bankrupt>.

blow to the country's economy, already suffering from a dysfunctional political apparatus, the recent default on the state's debt in March 2020 and the COVID-19 pandemic.

The tragic explosion reignited popular anger. Lebanese citizens renovated their grievances against the pervasive corruption and sectarianism that has dominated Lebanon's confessional system, leading the country to the brink of bankruptcy.

Implementing structural reforms while combating rampant corruption are understood as indispensable steps for the country to regain the lost confidence of investors and citizens alike, helping to unlock promised and desperately needed international financial support.

Yet, almost one year since the outbreak of popular protests last October and following the resignation of successive governments, the country's political

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leaders are far from embracing this need for reform.

Instead, Lebanese political and sectarian elites have coalesced among themselves to protect the status quo, deflecting criticism while clinging to power. In the process, it appears they are banking on some kind of international realisation of Lebanon being “too big to fail”, believing that support and assistance will magically materialise and save Lebanon from the brink.

In this context, the prospect of large gas discoveries in Lebanese waters has repeatedly been raised as a possible means to exit the crisis, ignoring the significant obstacles that lay on the path to any prospective development of this sector, let alone its potential to actually deliver the financial support needed to save Lebanon from collapse.

Lebanon’s explorational activity for gas in the Eastern Mediterranean has proceeded in fits and starts since the mid-2000s. The first offshore licensing round was launched in 2013, but it was only in February 2020 that the first drilling operations in Lebanese waters began, entrusted to an international consortium comprising Total, Eni and Novatek.

Amid the deep financial, political and infrastructural crisis that Lebanon is facing, gas discoveries could represent a means to revive the economy, boost employment, sustain the crippled national energy sector and limit Lebanon’s dependence on foreign energy imports.

As Lebanese president Michel Aoun put it in February 2020, the gas industry “will stand out as a cornerstone to get out of the abyss, and a decisive milestone to transform our economy”.<sup>2</sup>

Against the backdrop of political fragility and social discontent, the possibility of creating “thousands of new and promising job opportunities”, as promised by Aoun,<sup>3</sup> might help mitigate people’s anger.

Such hopes represent little more than a mirage however. First, the actual existence of the gas reserves and their commercial viability still need to be proven from a geological and technical point of view. Indeed, a first offshore exploration well in Block 4 turned out dry at the end of April 2020.<sup>4</sup>

Secondly, even if gas is discovered, estimates note that under the best of conditions significant revenues from gas exploitation would not be available until 2030.<sup>5</sup> Moreover, given the current abundance of cheap gas on the world market, needed investments in a prospective Lebanese sector will be hard, if not impossible to come by.

<sup>2</sup> Lebanese Presidency, *Address by His Excellency the President of the Lebanese Republic General Michel Aoun*, 26 February 2020, <https://www.presidency.gov.lb/English/News/Pages/Details.aspx?nid=25870>.

<sup>3</sup> Ibid.

<sup>4</sup> Timour Azhari, “Lebanon’s First Exploration Results: A Dry Well”, in *Lebanese Oil and Gas Initiative (LOGI) Newsletter*, 29 April 2020, <https://www.logi-lebanon.org/KeyIssue/Lebanon-first-exploration-results-dry-well>.

<sup>5</sup> Johnny West, *Lebanon’s Offshore Gas Sector: Shifting Towards Domestic Growth*, LOGI, May 2020, p. 13, <https://logi-lebanon.org/KeyIssue/Lebanon-offshore-gas-sector-shifting-towards-domestic-growth>.

Furthermore, the development of offshore gas fields in a country that has never had an extractive industry and is deeply beset by corruption and dysfunctionality poses significant challenges. It would require important technical infrastructure, financial resources and management skills, which are unlikely to be forthcoming under present circumstances.

Indeed, those same conditions – the corruption, negligence and poor governance – that drained the country's finances and allowed for such a deadly amount of explosives to be stored in the port of Beirut for so many years, could very well undermine any prospective gas industry in Lebanon. Gas would therefore likely turn into yet another outlet for corruption and the replication of sectarian interests, bringing more poverty and potential for conflict to the country.

The way the new-born sector has evolved thus far does not leave much room for optimism. It is hard to see a "ray of light amid the darkness", as prime minister Hassan Diab described Lebanon's exploratory drillings for gas in early 2020.<sup>6</sup> Several legislative procedures for the launch of operations were extremely lengthy due to continuous internal political turmoil and disagreement, clear symptoms of sectarianism.

In 2012, the Lebanese Petroleum Administration (LPA), the body tasked with planning, supervising and

managing the national petroleum sector, was created. However, the LPA falls under the responsibility of the Ministry of Energy and Water Resources and its board members are elected by the government according to sectarian criteria. Political interests and sectarian power sharing mechanisms are then reflected within the body, undermining its efficiency and neutrality. Suffice to say that it took more than seven months to appoint its board members in 2012.<sup>7</sup>

The first bidding round, initially launched in 2013, was delayed because the political void present at that time left two relevant decrees pending, one defining the offshore blocks of the Lebanese exclusive economic zone (EEZ) and the second approving the model exploration and production sharing agreement.<sup>8</sup> The bidding round only resumed in 2017.

The first drillings, expected to start in December 2019, were postponed by two months because of the political vacuum created by the October protests. Then, due to the COVID-19 pandemic and the fall of oil prices, the deadline for the second bidding round, originally set to close in January 2020, was extended to an undetermined date and, similarly, further drilling operations were rescheduled for 2021.<sup>9</sup>

<sup>6</sup> Zeina Karam, "Lebanon Begins 'Historic' Offshore Oil Drilling Amid Crisis", in *AP News*, 27 February 2020, <https://apnews.com/article/cba3dfd98b8e200ef362e1b40527a2f0>.

<sup>7</sup> Bassam Fattouh and Laura El-Katiri, "Lebanon: The Next Eastern Mediterranean Gas Producer?", in *GMF Mediterranean Paper Series*, February 2015, p. 4, <https://www.gmfus.org/node/7928>.

<sup>8</sup> Karen Ayat, "Lebanon Postpones the Launching of Its Bidding Round, Again", in *Natural Gas Europe*, 9 January 2014, <https://logi-lebanon.org/KeyIssue/Lebanon-postpones-launching-bidding-round>.

<sup>9</sup> LPA, *Postponement of the Deadline for the Submission of Applications to Participate in the*

As far as governance is concerned, a positive achievement was the definition of the legal framework for the gas sector with the support of the Norwegian government,<sup>10</sup> providing Lebanon with an efficient and transparent legislative basis. Laws 28/2017 “The Right of Access to Information” and 84/2018 “Enhancing Transparency in the Petroleum Sector” were ratified with the objective of preventing corruption and conflict of interests.

These measures have only been partially implemented, however. The agreements that the Lebanese government signed with two private companies for the sale of seismic data have yet to be published,<sup>11</sup> for instance, while the disclosure of the owners and beneficiaries’ names of all companies contracted in the operations is still not compulsory.

This allowed the Lebanese companies Apex Gas Limited and Petroleb to pre-qualify to the first bidding round. According to an investigation conducted by *Executive Magazine*, it emerged that both firms had scarce transparency issues and the latter had close ties with the LPA and the Ministry

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*Second Offshore Licensing Round*, 31 May 2020, <https://www.lpa.gov.lb/english/news-amp-media/news/postponment-of-the-deadline-for-the-submission-of-the-solr-applications>.

<sup>10</sup> “LPA to Sign a 3-Year Partnership with the Norwegian Government!”, in *Lebanon Gas and Oil*, 23 January 2015, <http://www.lebanongasandoil.com/index.php/news-details/51>.

<sup>11</sup> Jad Ghosn, *Follow the Money: Tracking Revenues from Sales of Seismic Data to Enhance Public Accountability*, LOGI, December 2019, p. 8-9, <https://logi-lebanon.org/KeyIssue/Seismic-Data-Sales-Revenues-Public-funds-raised-from-petroleum-activities>.

of Energy and Water.<sup>12</sup>

A further challenge stems from Lebanon’s EEZ borders and the conflict with Israel concerning approximately 800 km<sup>2</sup> of sea.<sup>13</sup> While the US has announced a surprise resumption of mediated talks between Israel and Lebanon over maritime boundaries negotiations,<sup>14</sup> this breakthrough appears connected to significant pressure by Washington on the cash strapped Lebanese authorities and a misplaced belief that such talks would somehow unblock Lebanon’s prospective access to lucrative gas revenues.

Indeed, Lebanon’s second drilling operation is due to take place in Block 9, at the southern border with Israel’s EEZ. The proximity of the exploratory activities to the contested area could fuel already existing tensions and have likely facilitated the need for talks.

Lebanon will be hard pressed to receive any concrete benefits from the explorations, while agreeing to talks with Israel in the context of recent developments both in Lebanon and the broader Middle East is likely to further re-ignite popular Lebanese anger towards the authorities.

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<sup>12</sup> Matt Nash and Jeremy Arbid, “Lebanon’s Murky Petroleum Business”, in *Executive Magazine*, 1 October 2014, <https://www.executive-magazine.com/?p=12126>.

<sup>13</sup> Mona Sukkarieh, “The Maritime Border Dispute Between Lebanon and Israel Explained”, in *Middle East Strategic Perspectives*, 5 March 2018, <https://wp.me/p4HWbb-1Pn>.

<sup>14</sup> “Lebanon and Israel to Hold ‘Historic’ Maritime Border Talks”, in *BBC News*, 1 October 2020, <https://www.bbc.com/news/world-middle-east-54374030>.

In this critical context, private investments and international funds and assistance is what Lebanon desperately needs, but these will require structural reforms which Lebanon's political and sectarian elites have long opposed. Indeed, the sectarian political system has deeply penetrated all of Lebanon's institutions and services, leading to dysfunctionality and widespread corruption, as for instance the country's notorious electricity sector demonstrates.<sup>15</sup>

Crucially, the country's economic development and sustainability must be placed ahead of the sectarian and geopolitical games and interests of Lebanon's various groupings and external backers. Rather than painting rosy scenarios of gas magically saving the country from collapse, political figures should focus on reforming Lebanon's institutional setup and orientation if a future is to be preserved for the country.

From this perspective, international partners and companies, particularly in Europe, should be mindful of fanning unrealistic expectations about a potential gas bonanza for Lebanon, instead directing attention and support to the calls for reform increasingly coming from within Lebanon itself.

Transparency laws must be fully implemented, starting from the disclosure of beneficial owners of all contracted companies and good governance must be enhanced through

the active involvement of civil society and the private sector. These measures should not be limited to the gas sector, but rather become the new benchmarks for international engagement and support for Lebanon more broadly.

A prospective gas sector is unlikely to materialise, let alone save Lebanon from collapse. Without political reforms and inclusive governance, should this gas mirage magically appear, it would no doubt turn out to be yet another means for corrupt elites to consolidate their authority and reproduce the same clientelist and divisive policies that have brought Lebanon to the brink today.

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<sup>15</sup> Tom Perry and Ellen Francis, "Special Report: Lebanon's Power Struggle – Why a Failing State Can't Get the Lights On", in *Reuters*, 10 August 2020, <https://reut.rs/2DD13DW>.

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