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Lebanon's First Steps in the Oil and Gas Industry

*By Mehdi Haroun**

The following article outlines the main challenges facing the development of the hydrocarbons' sector in Lebanon. It also offers a brief overview of the legal framework regulating Lebanese petroleum activities as well as a succinct timeline of the events that paved the way to Lebanon's first steps in the offshore energy industry.

Lebanon is the latest country to join the race for oil and gas exploration in the Eastern Mediterranean region. The significant natural gas fields discovered over the past decade in the Levant and Cyprus basins have sparked increased interest in the potential oil and gas resources contained in the Eastern Mediterranean sea. After more than three years of delay due to political deadlock, Lebanon has finally re-launched its first licensing round stalled since 2013. The Lebanese government estimates, based on seismic surveys, that Lebanon has 96 trillion cubic feet of natural gas reserves and 865 million barrels of oil offshore.¹ Although analysts have called for caution as no exploratory drilling campaigns have been conducted yet, Lebanon hopes that its offshore resources bring a major economic boost to the country and alleviate its chronic power shortages and budget deficits. It is therefore expected that any discoveries resulting from the exploration activities will be prioritized to meet domestic demand, especially in the power sector. In 2015, the Ministry of Energy estimated that at a price of \$90 per barrel, Lebanon could save \$1.9 billion if it switches its power bill to gas.² But so as not to put the cart before the horse, Lebanon has to make a successful entrance into the privileged circle of oil and gas producers.

The following outlines the main challenges facing the development of the hydrocarbons' sector in Lebanon. It also offers a brief overview of the legal framework regulating Lebanese petroleum activities as well as a succinct timeline of the events that paved the way to Lebanon's first steps in the offshore energy industry.

* Mehdi Haroun is a partner at King & Spalding LLP specializing in a broad range of corporate and commercial matters, particularly in the energy and infrastructure sectors, covering France and French speaking countries, in particular North Africa. Resident in the firm's office in Paris, he may be reached at mharoun@kslaw.com.

¹ Lebanon says gas, oil reserves may be higher than thought, Reuters, October 30, 2013.

² B. Fattouh, Lebanon's gas export options: timing is key, The Lebanese Center for Policy Studies, March 2015.

BACKGROUND

- The first onshore exploration wells were drilled in Lebanon between 1947 and 1967 but the government cancelled the exploration licenses when the civil war broke out in 1975.
- Between 1993 and 2006, a number of geological seismic surveys were conducted and suggested the presence of oil and gas deposits, however, no exploration wells were drilled offshore.
- Since 2009, a series of large natural gas discoveries were made in the Levant Basin, which has been estimated to hold up to 122 trillion cubic feet (“tcf”) of recoverable natural gas, in addition to some 1.7 billion barrels (“bbl”) of recoverable oil.³ Following the discoveries in the Levant basin, a complex conflict has emerged between Lebanon and Israel pertaining to the limitation of their exclusive economic zone (“EEZ”) boundaries.
- In 2010, the Lebanese parliament adopted the Offshore Resources Petroleum Law (Law No 132 dated 24 August 2010) (“ORPL”). The ORPL regulates reconnaissance, exclusive petroleum rights, and the exploration and production agreement between the Lebanese State and the right holders.
- In 2012, a Norwegian company, Spectrum, carried out a 3D seismic survey and estimated Lebanon’s recoverable offshore gas reserves at 25.4 tcf.
- In the same year, the Lebanese Petroleum Administration (“LPA”) was established. The LPA is a regulatory body, operating under the authority of the Minister of Energy and Water (the “MoEW”), in charge of managing the upstream offshore petroleum sector in Lebanon.
- In February 2013, the Lebanese government issued Decree 10289/2013 setting out the Petroleum Activities Regulations (“PAR”), which provide the legal framework to conduct petroleum activities⁴ in Lebanon, including the legal representation of the right holders, the management system, the general duties of the right holders and of the operators, the strategic environmental assessment, exploration and

³ Based on a 2010 U.S. Geological Survey study.

⁴ Petroleum activities are defined as follows: “the planning, preparation, installation and execution of activities associated with a subsea reservoir, such as reconnaissance, exploration, production and exploitation, laying pipelines, development of facilities, production from reservoirs, transportation, as well as cessation of any such activities and decommissioning of a facility. Transportation of petroleum in bulk by vessel and vehicle shall not be included.”

production rights, petroleum production and transport, cessation of petroleum activities and decommissioning of facilities and health, safety, and environment provisions.

- Following the establishment of the LPA and the adoption of the PAR, Lebanon announced its first offshore licensing round. The licensing round garnered interest from 52 international companies: 46 companies qualified to take part in bidding for oil and gas tenders, 12 of them as operators, including Anadarko, Petrobras, Chevron, ExxonMobil, Eni, Maersk, Repsol, Shell, Statoil, Total, Inpex, and Petronas. However, the licensing round was disrupted by political deadlock for more than three years.
- In January 2017, Lebanon finally approved two long-awaited decrees required for the completion of the first licensing round. The first decree (Decree n° 42 dated 19 January 2017) divides the Lebanese Exclusive Economic Zone into ten blocks and delimits their coordinates. The second decree (Decree n° 43 dated 19 January 2017) contains the tender protocol that defines the conditions for participating in the bid round and the criteria used in the bids' evaluation as well as the model Exploration and Production Agreement ("EPA").
- The approval of the two decrees was accompanied with the announcement of Lebanon's intention to restart its first oil and gas licensing round and to solicit bids for five offshore blocks. These blocks are: blocks 1, 4, 8, 9, and 10; blocks 8, 9, and 10 along the disputed maritime border with Israel, block 1 on the Syrian frontier in the north and block 4 in the middle.⁵ There has been a persistent debate over the past four years about the adequacy of a gradual licensing as opposed to granting contracts for the entire offshore all at once. The government finally took the view of the LPA which recommended the gradual licensing, as it allows Lebanon to leverage the knowledge it will gain from the first drilling campaigns in order to get better terms in the future and potentially extend the timeframe over which revenues would be generated from the sector.⁶
- The tender process extended over a period of 10 months starting in February 2017 and ending in November 2017. The new pre-qualification round for the submission of documents was opened on February 2, 2017 and the closing date was March 31, 2017. Results of

⁵ See graph *infra*.

⁶ M. Nash, Into the blue: Lebanon's oil and gas sector nearly open for business, Executive Magazine, May 2017.

the new pre-qualification round were announced on April 26, 2017, by the MoEW. All in all,⁷ 51 companies were eligible to participate: 13⁸ as operators and 38 as non-operators.

- The government of Lebanon has announced its intention to join the Extractive Industries Transparency Initiative (“EITI”) with the aim to enhance transparency and accountability in Lebanon’s oil and gas sector. The EITI is a voluntary initiative through which the government of Lebanon will commit to publishing reports on how the government manages the oil and gas resources. It should be noted, however, that the Lebanese government has yet to make a formal commitment to joining this initiative.
- On September 19, 2017, the Lebanese parliament adopted a petroleum tax law, and only a few days after, the deadline for the applications submission was extended to October 12, 2017. The government’s next task will be the adoption of the implementation decrees so that the tax provisions are fully enforceable.
- On October 13, 2017, the MoEW announced that Lebanon received only two bids on two different blocks, both submitted by the same consortium made up of France’s Total, Italy’s ENI and Russia’s Novatek. The LPA evaluated the bids and submitted the results to the Council of Ministers. The signature of the EPAs took place February 9, 2018.⁹
- One interesting aspect of this licensing round is that certain companies submitted bids in the absence of a complete set of legislative framework, taking a certain degree of risk. For example, important tax implementation decrees are still to be published. Other potential bidders decided not to bid in the absence of a full legal framework.

OVERVIEW OF THE REGULATION

Sovereign Fund

Article 3 of the ORPL states that all of Lebanon’s petroleum generated proceeds shall be deposited into a sovereign fund. By choosing to place its oil

⁷ The Lebanese government confirmed that the companies that pre-qualified in 2013 were still eligible to participate in the 2017 round provided that they still meet the prequalification criteria and submit their financial statements for the years 2014 and 2015 (audited) and 2016 (unaudited).

⁸ ONGC Videsh, which qualified in 2013 as non-operator, updated its status after the 2017 pre-qualification round to operator.

⁹ EPA covering Block 4 is available at [https://www.lpa.gov.lb/pdf/EPA Block 4.pdf](https://www.lpa.gov.lb/pdf/EPA%20Block%204.pdf); EPA covering Block 9 is available at [https://www.lpa.gov.lb/pdf/EPA Block 9.pdf](https://www.lpa.gov.lb/pdf/EPA%20Block%209.pdf).

revenues in a sovereign wealth fund, the Lebanese government follows the path of Norway and more recently Saudi Arabia. But Lebanon still requires a specific law regulating the fund and setting out the rules of its management, the principles of investment and use of proceeds.

Petroleum Rights

1. *Prospecting license*:¹⁰ prospecting licenses are awarded for a period of up to three years. They are not exclusive and do not give the right holder any preference or privilege with regard to obtaining any other petroleum right. Data resulting from prospecting licenses are the property of the Lebanese State.
2. *Exploration and Production Agreement* (“EPA”): there is only one type of petroleum contract under the ORPL. The EPA is entered into between the State and international or Lebanese oil companies, providing the companies with the right to explore for, develop and produce oil and gas reservoirs offshore in Lebanon’s EEZ. The EPA is awarded following a competitive bidding process. As previously mentioned, Lebanon launched its first offshore licensing round in 2013, but the licensing round was interrupted for more than three years due to political instability.¹¹ The tender process resumed in February 2017 and ended in November 2017. In order to be able to participate in the tender process, the pre-qualified companies were invited to join together in consortiums of at least three companies, among which one shall be the operator, forming an unincorporated joint venture. The highly debatable rationale behind this rule is said to be the wish of the Lebanese government to “establish a competitive landscape with a variety of players, to control costs and share risks and capital” as the unincorporated joint venture facilitates risk and capital sharing from a company’s perspective and “sets up conflicting interests from which tax authorities can benefit in controlling costs,” from a government’s perspective.¹² Therefore the tender application must be submitted by one pre-qualified operator and no fewer than two pre-qualified non-operators. The operator shall hold at least 35 percent participating interest whereas the other right holders shall hold a minimum of 10 percent participating interest. The applicants are

¹⁰ Also called reconnaissance license.

¹¹ Prior to the election of Michel Aoun in October 2016, Lebanon had remained without a president for almost two years.

¹² C. Nakhle, *Licensing and upstream petroleum fiscal regimes: assessing Lebanon’s choices*, The Lebanese Center for Policy Studies, 2015, p.13.

allowed to bid for any or all five blocks, however they can only be awarded a maximum of two blocks in the first licensing round.

Under the EPA, the exploration phase is divided into two periods of three years and two years respectively. A possible extension of the second exploration period can be granted for one additional year. Likewise, the exploration phase can be extended up to 10 years with the approval of the Council of Ministers.

If a discovery is made, the right holders must appraise its commercial potential, and if they conclude it is commercially viable, they must propose a plan to develop the discovery and produce oil and gas. The plan in question is subject to approval by the Council of Ministers. If approval is granted, the right holders must produce oil and gas during a 25 year production phase. The production phase can be extended by five years if the right holders agree to make additional investments.

Revenue Sharing and State Participation

There will be no State participating interest in the first licensing round. As for the revenue sharing applied under the EPA, it is as follows: first, the right holders must pay to the State royalties equal to four percent of the gas produced, and a variable rate (between five and 12 percent) of the oil produced. The royalties are either paid in cash in U.S. dollars or in kind from the petroleum produced. The MoEW will decide in agreement with the Minister of Finance whether the State will take royalties in cash or in kind. The decision is made on an annual basis and is notified to the right holders by the LPA by October 1 of the preceding calendar year. The royalty taken in kind is delivered to the State at no cost at the point of delivery stipulated in the development and production plan. The MoEW may also require the operator or a right holder to sell on behalf of the State, the whole or part of the royalty taken by the State in kind. The operator or the right holder will have to sell the relevant volume of petroleum on the open market at the "best price reasonably obtainable and remit the proceeds of the sale directly and forthwith the State."¹³

Second, recoverable costs incurred by the right holders are recovered from a volume of oil and gas (*i.e.* Cost Petroleum), the percentage of which is determined by bidding, but shall not exceed 65 percent of disposable petroleum. The remaining oil and gas (*i.e.* Profit Petroleum) is apportioned between the State and the right holders in proportions determined by bidding under a formula pursuant to which the State's share increases after the right holders have recovered their investment.¹⁴ Similarly for royalties, the MoEW

¹³ Article 82 of the PAR.

¹⁴ See Exploration and Production Agreement, Lebanese Petroleum Administration, www.lpa.gov.lb.

can require the operator or a right holder to sell, on behalf of the state, the Profit Petroleum to which the State is entitled.

1. *License for construction, mounting, and operation of a transportation or storage facility:* a specific petroleum license can be awarded by the Council of Ministers on the basis of a proposal by the MoEW upon the opinion of the LPA for the construction, mounting and operation of pipelines and storage facilities.
2. *Production permit:* production of petroleum, except petroleum from a production test of a reservoir, shall not be carried out unless a production permit is awarded by the MoEW based on the opinion of the LPA. Production permits are granted for one year and can be renewed annually. However the MoEW may decide that individual permits shall have a different duration based on the size of the relevant reservoir, the type of petroleum, its rate of production or other factors of importance for the optimal depletion of petroleum.¹⁵ When an application for a production permit is included in the development and production plan submitted by the signatories of an EPA, the approval of such plan by the Council of Ministers implies approval of the production permit. This would guarantee that there will be no delay between the approval of the development and production plan and the granting of the required production permit.
3. *Minimum work commitment:* the terms of the minimum work commitment during each of the first two exploration periods will be subject to negotiations and set out in the EPAs. The failure to complete the minimum work requirements entails the payment by the right holders of an amount of money determined by the EPA. Therefore, the right holders will be required to provide one or more work commitment guarantee(s).

Assignment and Change of Control

The assignment or transfer of petroleum rights whether in whole or in part is only allowed if the assignee or the transferee meets the qualifications set out by the ORPL and after the approval of the Council of Ministers following the MoEW's proposal based upon the opinion of the LPA. The assignment of participation interest under the EPA is also subject to the fulfilment of the minimum work commitment for the first exploration period. It should be

¹⁵ Article 46 of the PAR.

noted however that such approval is not applicable to assignment of participation interest under the EPA to a wholly-owned affiliate of a right holder.¹⁶

A change of control¹⁷ of a right holder is deemed to be an assignment under the EPA and is therefore subject to the above-mentioned rules. The EPA adopts a strict approach by drawing a parallel between assignment of rights and change of control, despite the judicious choice of a moderate definition of change of control. This could prove to be problematic, as investors usually prefer the ability to easily exit their investments.

Transfer of the right holder's ownership or right of use of the facilities dedicated to a petroleum activity requires approval of the Council of Ministers upon the proposal of the MoEW and the opinion of the LPA.

Neither the regulation nor the EPA provides a timeframe for the approval process, which is unfortunate. The sanction for the failure to comply with the above provisions is not determined either. However, it is likely that the failure of the right holders to comply with the assignment or change of control provisions will be deemed a material breach of the ORPL and of the EPA allowing the early termination of the EPA by the Lebanese government and the revocation of the relevant permit.

Local Content

The ORPL requires the right holder to comply with certain "local content" obligations such as giving priority when hiring to Lebanese nationals whenever possible. Under the EPA model, not less than 80 percent of the aggregate number of employees of the right holders (including the operator) shall be Lebanese nationals during the exploration phase. This requirement may prove to be very challenging to international oil companies ("IOC") as this threshold is difficult to achieve given the limited oil and gas expertise in Lebanon.

The right holder shall also organize and fund the training of the Lebanese personnel carrying out petroleum activities.

¹⁶ An affiliated company to the right holder is a company which directly or indirectly controls, is controlled by or is under common control with the right holder. The PAR states that "control means with a respect to a company, the ownership of a majority of the voting capital of such company or the power to appoint a majority of the board of directors or similar management body of such company."

¹⁷ Under the EPA, a change of control means with respect to a right holder "any direct or indirect change of the identity of the ultimate parent entity that controls such right holder through a single transaction or a series of related transactions, unless such change of identity occurs solely as a result of the acquisition of shares of an entity that is listed on a public stock exchange, or the merger or consolidation of any such listed entity with any other entity."

Priority should also be given to Lebanese nationals in the award of contracts for construction of facilities and the supply of material, good and services related to petroleum activities when the terms and conditions offered by the Lebanese suppliers are similar to those of their competitors. It should be noted that the EPA imposes this priority even if the prices of the Lebanese suppliers are higher than the prices of the foreign suppliers by five percent for goods and 10 percent for services. The aim here is obviously to allow the Lebanese private sector to benefit from the economic boost that the exploration activities may provide. The financial and legal sectors will likely be the first to profit from these provisions, as Lebanon's oil and gas industry is still non-existent.

In addition, the right holders are also required to establish and maintain a legal presence in Lebanon. This could be done by establishing and maintaining a branch in Lebanon.¹⁸

National Oil Company

The ORPL provides for the possibility of establishing a national oil company ("NOC") "when necessary" and "after promising commercial opportunities have been verified." The NOC shall be established by the Council of Ministers on the basis of a proposal of the MoEW upon the opinion of the LPA. There has been a persistent debate in Lebanon about the appropriateness of establishing a NOC before the country has confirmed whether or not it actually has exploitable offshore oil and/or gas resources. In a study published in September 2016 by the Lebanese Center for Policy Studies, energy researcher Valerie Marcel argued that the establishment of a NOC involved in the exploration phase in Lebanon today presents significant risk and the payoff of an investment in a NOC is highly uncertain.¹⁹ Marcel reminds that the capacity for a NOC to generate profits and the scale of those profits depend to a very large extent on the stage of development of the resource and that any company created before production will require the financial support of the state. Marcel adds that even after production begins, a NOC with equity stakes in the producing fields will likely be paying back operators of the field for its share of the costs they carried until production. Marcel concludes that in the case of Lebanon, which is still far from production, assuming a commercial discovery is made, the risks of an early creation of a national oil company outweigh the rewards.²⁰ One could, however, argue that setting up a NOC is often indispensable for building in-country expertise and ensuring State control

¹⁸ Article 7 of the PAR.

¹⁹ V. Marcel, *Establishing a National Oil Company in Lebanon*, The Lebanese Center for Policy Studies, September 2016, p. 7.

²⁰ *Ibid.*, p. 6–8.

over the resource by allowing State participation and State involvement in petroleum activities. A NOC can start very small and restrict its role to managing State's participatory interests while learning from its IOC partners to build national capacity. If exploration proves successful, the role of the NOC can then gradually widen.

TAX REGIME

On September 19, 2017 and after two years of prevarication, the Lebanese parliament passed a tax law tailored for the oil and gas industry (the "Petroleum Tax Law").²¹ The Petroleum Tax Law imposes higher tax rates on oil and gas companies than the Lebanese tax system does on other companies operating in Lebanon. While the corporate income tax rate in Lebanon remained at 15 percent for several years and has just recently increased to 17 percent,²² the Petroleum Tax Law sets the income tax at 20 percent for petroleum operations. The Petroleum Tax Law also provides that the EPAs will be subject to a stamp-duty fee of five million Lebanese pounds (*i.e.* approximately EUR 2,811) and that the facilities and equipment used in offshore petroleum activities are exempt from property tax.

Despite the fact that the Petroleum Tax Law was adopted a few weeks ahead of the submissions' closure date, experts have pointed out that the government was already several months late.²³ As rightly reminded by observers, not only is it inadequate to launch a tender under one set of legislation and to complete it with another set, but this also confirms that "high-level decision making vis-à-vis Lebanon's oil and gas sector moves at a slow and erratic pace."²⁴ Clearly this is not the most encouraging sign to attract bidders. The LPA was, however, said to be confident that the late passing of the law did not have any adverse impact on the bids, in spite of the lack of implementation decrees, as the LPA had already done presentations on this subject and gave the pre-qualified

²¹ Law N° 57 on tax provisions related to petroleum activities in accordance with Law 132/2010, published in the Lebanese Official Journal, n° 48, dated 12 October 2017.

²² This increase, which falls within a general reboot of the fiscal regime, was voted on October 9, 2017 after the Lebanese Constitutional council annulled the first version of the tax reform and referred it back to the parliament for amendments. The amended text voted on October 9th is said to be mostly identical to the one that was challenged before the Constitutional council. Accordingly, the possibility of another challenge before the Constitutional council cannot be excluded.

²³ M. Sukkarieh, The oil & gas waiting game, can Lebanon or Israel replicate the success of Cyprus' third offshore licensing round?, Executive Magazine, August 2017.

²⁴ *Idem.*

companies the general headlines of these new fiscal provisions.²⁵ This might not be the practice of several potentially interested companies.

CHALLENGES

Even though the Lebanese authorities were said to be confident that at least two or three of the 13 prequalified operators would place bids,²⁶ the resumed licensing round attracted only one bidder. A consortium made up of Total SA, ENI International B.V. and JSC Novatek for blocks 4 and 9 won the signature of the two PSC with this consortium. Lebanon made a big step that should add the country to the international oil producing club. However, this does not necessarily mean that Lebanon's adventure in oil and gas exploration will be smooth sailing. The launching and development of the hydrocarbon industry in Lebanon faces a number of challenges and obstacles, both on the political and economic levels.

On the political level, the situation in Lebanon has been unstable for years and the conflict in neighboring Syria has not helped in achieving political consensus. The numerous delays that have marred the adoption of almost every single law and regulation relating to the oil and gas sector in Lebanon are proof of how uncertain and unreliable the decision-making process can be. As mentioned above, the implementation decrees of the new petroleum tax law are yet to be adopted, raising concerns about another round of delayed regulatory framework for petroleum activities.

It is also to be feared that this political instability will impact the day-to-day conduct of petroleum activities. As shown above, a number of decisions relating to the granting of permits, their renewals or extensions, and the transfer of rights are subject to the approval of the Council of Ministers. It would therefore be legitimate to worry about the consequences a political deadlock would have on the growth of the nascent industry.

In addition to the aforesaid, one could also wonder how apropos it is to submit the above-mentioned decisions to the approval of the Council of Ministers, increasing the likelihood of politicizing these decisions instead of basing them on a technical assessment, as it should be.

Moreover, an 874 km² disputed maritime area is currently claimed by both Lebanon and Israel. The Lebanese government does not officially recognize that there is any disputed area and has divided its offshore area into 10 blocks whereby parts of blocks 8, 9, and 10 cover what Israel claims to be the disputed

²⁵ M. Nash, Icing on the cake, *Executive Magazine*, October 5, 2017.

²⁶ M. Sukkarieh, The oil & gas waiting game, can Lebanon or Israel replicate the success of Cyprus' third offshore licensing round?, *op.cit.*

area.²⁷ As previously mentioned, these three blocks are among the five blocks that were open for tenders during the first licensing round. The initiatives undertaken by the United States and the United Nations to mediate a resolution to this dispute have so far failed and it seems unlikely that the dispute will be resolved in the foreseeable future. Some may argue that this issue did not prevent the consortium formed by Total, ENI and Novatek from bidding on a block that includes an area dispute by Israel (*i.e.* block 9), however it should be reminded that the block in question is considered as one of the most promising blocks and has previously received the highest number of votes when the LPA surveyed the qualified companies in 2013 to assess their interest in the offshore blocks.²⁸ The fact that the said block did not receive more bids might therefore also be explained by the concerns that many international companies may have regarding the impact of such dispute on the conduct of drilling operations. In any event, Total, as operator, indicated that the more promising prospects are outside the disputed area where no well will be drilled.²⁹

On the economic level, the first obvious question that could be raised is whether Lebanon is too late. It is no secret that since Lebanon has interrupted its first licensing round in 2013, there has been a sharp decrease in the price of oil, which has led to a major drop in investment in the oil industry.³⁰ One could claim that the fact that only three of the 51 having pre-qualified companies actually took part in the bidding is the perfect illustration of this missed opportunity.

Another obstacle is the expected long period until production begins and revenues flow from sales of oil or gas. Studies have shown that this could take at least seven to 10 years.³¹ In parallel, a significant amount of infrastructure is required for the development of upstream and downstream industries necessitating significant expenditure and hectares of lands. This could prove to be challenging in a highly indebted urbanized country like Lebanon.³²

²⁷ See C. Nakhle, Lebanon oil and gas; not for the faint-hearted, Pipeline Magazine, November 2016.

²⁸ F. Assaf and M. Sukkarieh, Lebanon's oil & gas licensing round attracts bids from Total-Eni-Novatek, Middle East Strategic Perspectives, October 13, 2017.

²⁹ Total strengthens its position in the Mediterranean region by entering two exploration blocks offshore Lebanon (Total Press release), February 9, 2018.

³⁰ The price of crude oil went from 108.78 US Dollars per barrel in September 2013 to 52.95 US Dollars per barrel in September 2017.

³¹ Is Lebanon really an oil and gas producing country?, a study edited by the Center of Economic Studies of Fransabank, July 2017, p. 14.

³² N. Hoteit, The Petroleum Sector in Lebanon: History, Opportunities and Challenges,

Additionally, and assuming a commercial discovery is made, there is uncertainty surrounding the capacity to export gas from Lebanon. Although some analysts consider that exporting gas via regional pipelines to neighboring countries might be the most suitable solution considering the low infrastructure costs and Lebanon's relatively stable relations with neighboring countries as opposite to Israel's isolated position in the region,³³ LNG is said to be the most attractive option for exporting gas. More precisely, a joint LNG export facility with Cyprus or Egypt might be the most convenient option in the medium to long term,³⁴ as it offers significant cost savings with existing contract structures and export experience locally present by the time Lebanon is ready to produce gas.³⁵ However, the LNG export option remains subject to many uncertainties as it depends, among other things, on the amount of gas available for export, the price of gas and Lebanon's investment climate.³⁶ The construction of a floating storage and regasification unit ("FSRU") in offshore Lebanon's costal area is another possibility as it offers a cheaper, faster, and more flexible option than traditional onshore terminals. Lebanon even closed bids for a build-operate transfer ("BOT") FSRU a few years ago, after a shortlist of three political FSRU candidates was reportedly prepared for submission by the MoEW to the Council of Ministers in April 2014.³⁷ After a period of political deadlock, 13 companies (including the Malaysia's Petronas) have been short-listed to develop three FSRUs in the framework of a contract which is said to worth US\$1.2 billion. It is understood that offers from the 13 prequalified companies were due by October 1, 2018, and the decision on the preferred bidder should be made in early 2019.³⁸

Finally, and as many observers have stated, one of the biggest challenges facing Lebanon's nascent oil and gas sector lies in the choices the Lebanese government will have to make regarding the management of revenues from its potential oil and gas resources. Many have provided guidelines on how to make sure that resource revenues are managed responsibly, whether by giving the

Assadissa, Institut des Finances Basil Fuleihan, October/November 2014.

³³ B. Fattouh and L. El Katiri, Lebanon's gas trading options, The Lebanese Center for Policy Studies, 2015, p. 10.

³⁴ B. Fattouh and L. El-Katiri, Lebanon: the next eastern Mediterranean gas producer?, February 2015, Mediterranean paper series of the German Marshall Fund of the United States.

³⁵ B. Fattouh and L. El Katiri, Lebanon's gas trading options, p.17.

³⁶ B. Fattouh and L. El-Katiri, Lebanon: the next eastern Mediterranean gas producer?, p. 15.

³⁷ B. Fattouh and L. El Katiri, Lebanon's gas trading options, p.8.

³⁸ J. Barrock, Petronas shortlisted for US\$1.2 bil Lebanon FSRU job, The Edge Markets, July 3, 2018.

priority in the use of potential revenues to pay off Lebanon's large public debt, beginning with the riskiest of all liabilities, the foreign currency external debt,³⁹ or by setting up an efficient public investment system in infrastructure,⁴⁰ or by setting fiscal targets to use a constant share of revenues every year to preserve resource wealth over time.⁴¹ Lebanon's intention to join the EITI has been welcomed nationally and internationally. EITI candidate countries are required to regularly publish reports disclosing all extractive industry revenues received and all relevant payments made by the country's oil and gas industry. The information contained in the reports should be reconciled by an independent authority and made available to the public.⁴² However, this initiative will not be enough on its own if Lebanon does not enhance transparency and accountability mechanisms overall, whether it comes to licensing and awarding of contracts, or disclosing key information on government activities and the use of public funds or strengthening the capacity of regulatory bodies.⁴³ On that last point, a good start would be to make the LPA independent from the MoEW and legally transformed into an independent energy regulator with a widened mandate to manage, monitor, and supervise the petroleum activities.⁴⁴ The ORPL has granted the LPA financial and administrative autonomy while still placing it under the authority of the MoEW. As previously explained, the LPA plays more of an advisory role. Its opinion is not binding on the MoEW and the Council of Ministers remains the primary decision-maker in the Lebanese oil and gas sector. Yet it is important not to forget that establishing an efficient legal and regulatory framework for petroleum activities requires a well-resourced professional regulator that is independent of both political interference and the actors it regulates.

³⁹ B. Fattouh and L. Mahadeva, *Managing oil and gas revenues in Lebanon*, The Lebanese Center for Policy Studies, August 2016, p. 21.

⁴⁰ *Ibid.*, p. 22.

⁴¹ A. Fedelino, *Lebanon's future gas revenues: How to make them work for everybody*, International Monetary Fund.

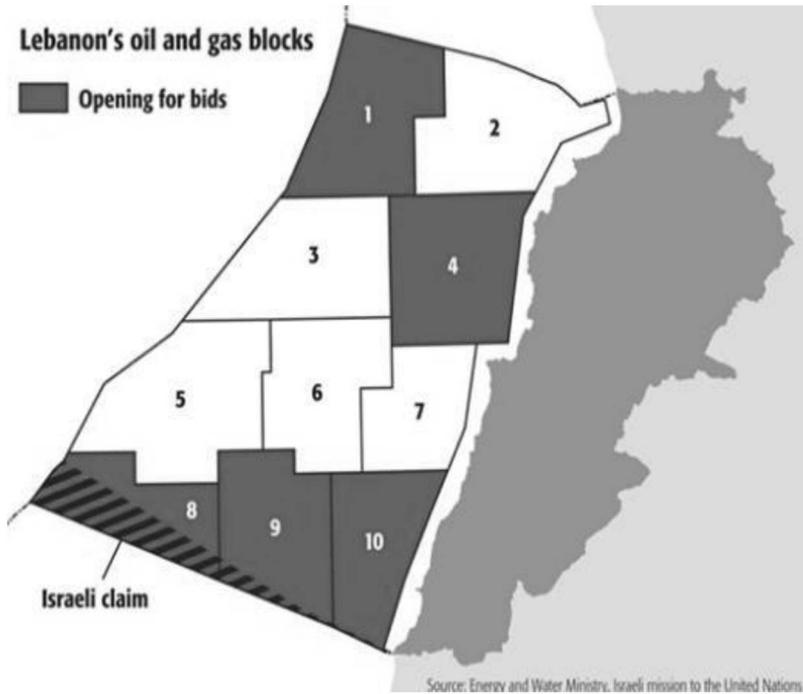
⁴² M. Martini, *Transparency and accountability in Lebanon's emerging petroleum sector*, U4 Anti-Corruption Resource Centre, April 20, 2015, p. 9.

⁴³ *Ibid.*, p. 5–8.

⁴⁴ See N. Saidi, *Lebanon's oil and gas wealth: policy recommendations for escaping the "devil's excrement" curse*, Konrad Adenauer Stiftung, September 2016, p. 11.

⁴⁵ Graph published in the Daily Star on February 3, 2017, under an article by O. Habib, *Contested waters to open for bids but drilling optional*.

Lebanon's Oil and Gas Blocks⁴⁵



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