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Keeping Lebanon's Oil and Gas Bids Transparent

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A seismic vessel is pictured off the coast of Lebanon on 24 September 2012. Seismic surveys of Mediterranean waters off Lebanon's southern coast suggest they contain 12 trillion cubic feet of natural gas. (Photo: AFP - STR)

On 15 February 2013, the Lebanese government initiated the country's first ever offshore licensing round.

Companies interested in bidding for oil and gas exploration and production licenses off the Lebanese coast have until the end of March to submit their pre-qualification package. By February 2014, the first exploration and production agreement is scheduled to be signed.

Lebanon has opted for a transparent process to allocate its offshore blocks. This is in contrast to many developing countries that often use less transparent methods, such as direct negotiations or awarding contracts on a 'first-come, first-serve' basis.

These latter approaches encourage corruption as the criteria for contracts are not pre-defined or known to potential investors beforehand. Licenses therefore become vulnerable to favouritism and corruption.

Competitive bidding, if well-designed and applied, encourages financially strong and technically competent companies to offer the best terms to the host government. In this sense, the Lebanese approach can be described as 'so far, so good.'

For pre-qualification, Lebanon has set specific legal, technical, and environmental criteria. By setting such specific standards, the Lebanese authorities improve the odds of attracting serious players who are able to carry out capital-intensive and risky exploration programs. In other developing countries, investors acquired large blocks then sat on them for long periods, only carrying out limited exploration.

By February 2014, the first exploration and production agreement is scheduled to be signed. Competitive bidding for license allocation has long been a preferred policy in the US. In Norway and the UK, licenses are normally awarded on the basis of a proposed work program. In Lebanon, the biddable items are likely to be the work program and profit sharing.

It is often argued that competitive bidding tends to be the most successful approach once a proven commercial resource has been established. While geological endowment is certainly an important factor, it is not the only determinant of investment decisions.

Despite its huge proven oil and gas potential, Algeria's licensing round in 2011 resulted in only two out of ten licenses being awarded. The country's tough fiscal terms and political risks dampened investors' enthusiasm.

In Lebanon, more than 40 international oil and gas companies – private and public alike – have purchased seismic data from the Ministry of Energy and Water. This is a positive development, reflecting wide interest and the potential to create a competitive framework for the licensing round.

Yet this initial enthusiasm is not always an indicator of licensing success. Iraq best illustrates this case. The country holds more than 127 trillion cubic feet of proven gas reserves. During its fourth licensing round in 2012, around 47 companies pre-qualified – including oil majors such as BP, Shell, and Total – for bidding on 12 blocks. When the terms were revealed, only 11 companies bid on four blocks. Only three blocks were awarded.

Many eyes are on Lebanon as it tries to navigate the long path ahead. So far, the pre-qualification process seems to be in line with international good practice.

Strong governance, an anti-corruption framework, and non-discriminatory treatment of bidders are the most important ingredients. In the end, transparency will benefit both the bidders and the country.

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The views expressed by the author do not necessarily reflect Al-Akhbar's editorial policy.