

Energy Intelligence

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Lebanon Pressed to Improve Bid Round Terms

By Tom Pepper, Rome

International oil companies are requesting that Lebanon make significant changes to the exploration and production sharing contract model it plans to use as part of the country's first offshore bid licensing round ([IOD May2'13](#)).

In late June a meeting was held between prequalified consortia and the Lebanese Petroleum Administration (PA), which oversees the bid process, to receive IOC feedback on the current fiscal terms on offer.

"Firms have submitted their comments on the draft exploration and production agreement (EPA) and an amended version will be available in coming weeks," Wissam Chbat, head of geology and geophysics on the PA, told delegates at the Lebanon Gas conference, sponsored by CWC group, in Rome Monday.

IOCs have given a subdued response so far to the existing EPA. "Frankly -- there were a lot of declines last week so they will need to look at this," says an IOC executive at one of the prequalified firms.

Complaints focused on several areas: initial exploration phases of three years with optional two year extensions were considered too short; the offer of only 24 months available under force majeure -- if operations had to cease due to unforeseen circumstances -- was also considered not long enough. And extensions are being sought for the time required to submit a development plan, which currently runs at 60 days.

Beirut originally prequalified 12 operators including Royal Dutch Shell, Exxon Mobil, Italy's Eni, France's Total, Norway's Statoil, Spain's Repsol and US-based Chevron and Anadarko. Others include Denmark's Maersk, Malaysia's Petronas, Japan's Inpex, Brazil's Petrobras.

A repeated concern was the political risk attached to Lebanese offshore exploration given the domestic political instability with a caretaker government currently in place and the continued danger of further spillover from the Syrian conflict as well. Ongoing maritime border disputes with Israel and Cyprus are expected to further complicate matters.

The PA representatives were keen to emphasize that the bid round was "a learning process" and outlined main areas of concern and what action the PA would take. A more customized fiscal regime for oil and gas exploration activities is under preparation and corporate tax "stabilization" will now be incorporated into the EPA. Further reassurances were given that IOCs would see no loss of rights in case of "justified delays" during the approval process for offshore blocks. Participating interests will be addressed with the Lebanese state's pre-emption right upon the transfer of a block to be removed from the EPA.

The exploration phase looks likely to be extended and concerns over recruitment of Lebanese nationals -- tied into the exploration phase -- will also be tackled with greater flexibility allowed. Finally, natural gas pricing will be clarified from its current format -- the existing model was not outlined during the conference. Negotiations guides to the bid round for prequalified firms will be published next week, according to Chbat.

Asked if the tepid reaction from IOCs would lead the PA to change its fiscal terms, Chbat told *International Oil Daily* on the sidelines of the conference that: "After feedback from firms we will be sending amended detailed taxes and fiscal terms to Parliament for ratification."

On Jun. 30 the PA plans to issue the final delineation of all offshore blocks on offer under the bid round. Up to five blocks will be on offer with awards for four blocks expected as part of this round. Current reserves -- based purely on 2-D and 3-D seismic surveys -- are now estimated at 14.9 trillion cubic feet of natural gas and 440 million barrels of condensate ([IOD Oct.19'12](#)).

Plans for a new national oil company and a Petroleum Sovereign Fund to manage potential gas revenues were also discussed at the conference but are still in the early stages of development.

"It's not clear who will work on that -- whether it's the Ministry of Finance or not or the Council of Ministers but we [PA] are discussing this internally on who should manage such a fund. A national oil company should be demand driven," said Chbat.

One conference delegate pointed out the hype, which has gripped the country since potential gas reserves were first discussed: "They are talking about all of this [fund, national oil company] and they still haven't found any gas yet."