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Depoliticize Lebanon's gas and oil

By Carole Nakhle

As Lebanon is added to the global oil and gas map, there is a perception that the nation may have finally hit the jackpot. Potential oil and gas wealth, however, may take some time to materialize, and there is a danger that it may be squandered long before all Lebanese citizens, regardless their political affiliation, can enjoy it.

Oil and gas resources are nonrenewable, as such, their extraction is similar to the liquidation of an asset: Once extracted and sold, they are permanently lost. This creates an imperative for the government to encourage the sustainable development of these resources by establishing an institutional framework that provides enduring social and economic benefits for the state, and so for the country's current and future generations, while encouraging investment in the sector.

It is premature to put any value on Lebanon's potential hydrocarbon riches as many uncertainties remain and no discoveries have yet been made. Until a discovery is made, all estimates – whether those of the Energy Ministry or the U.S. Geological Survey – fall under the "resources" category, which encompasses both resources that can be technically recoverable and those that cannot be recovered.

When some unwisely put a value on these resources, they often are simply confusing resources and reserves. They also seem to overlook what the USGS clearly states, namely that "no attempt was made to estimate economically recoverable resources." The latter – called reserves – depend on several factors, particularly the size of the discovery, oil and gas prices, and extraction costs.

Many also forget that any potential production will take years to come on stream. According to the International Energy Agency, no significant oil and gas production is expected from countries such as Lebanon before 2020 under the most optimistic scenario. By then, oil and gas markets are likely to look structurally different from what they are today.

So before we think about conquering space or building military power, our focus should be on building a strong, debt-free economy and, more importantly, on ensuring continuous domestic power supply for all the Lebanese in every single region of the country. That is a basic requirement for modern societies.

Wherever they are found in the world, oil and gas resources have the ability to transform fortunes of countries, companies and citizens. The risks of a resource curse, however, are just as much possibilities as the opportunities of a resource bounty. These outcomes are a matter of stewardship and governance rather than of any natural law. In Lebanon, if oil and gas discoveries are made, the outcome will depend on the way the sector is managed from the start. Weak foundations typically lead to structural failings.

It has to be remembered that any potential agreement that Lebanon will sign with experienced international oil companies will lock the country in those terms for the next 30 years. Some would argue that it is a "learning by doing" process and as Lebanon builds the necessary expertise and gains a better understanding of the sector, those contracts can be revisited.

While there is a point in such an argument, once contracts are signed, revising their terms is not advisable. Such measures can significantly increase investors' perception of risk and reduce their confidence in the government – Venezuela is a good example. Moreover, it may not be practical, particularly if those contracts prohibit changes.

Exaggerated statements should be toned down, and the Lebanese should be clearly aware of what they are getting themselves into. Most importantly, they should accustom themselves to the cautious handling of this special sector, which, if successfully developed, will dwarf any other sector the Lebanese economy has ever experienced.

A key issue, but a very sensitive one, for sustainable development of the sector is to depoliticize it. It has been disappointing to see the political infighting over control of the sector even though no substantial revenues have yet been generated. One imagines this will only worsen once significant revenues begin to appear.

One way of depoliticizing the sector is to reduce the discretionary power given to the energy minister. This is unlikely to be a welcome recommendation for the political class, but it is essential for shielding the sector from political interference, especially in a country such as Lebanon where political divisions are deeply rooted. This strategy would offer an additional blessing: It would protect the minister from politically motivated criticisms, creating a win-win situation.

Another aspect that could also be considered, and is probably more feasible, is the breakdown of the Energy Ministry into two or even three ministries – separating the oil and gas sector from its water and electricity sectors. This would require a clear division of roles and responsibilities to avoid conflict and duplication of efforts, while at the same time maintaining coordination across various ministries, including the Finance, Economy and Environment ministries.

Often, when the subject of oil and gas is discussed in Lebanese circles, reference is made to Norway and the success of its oil and gas resources. This is a good example to which to aspire.

Few, however, understand the ingredients behind that success. Norway is one of the few examples where resource wealth has been an undiluted blessing.

There are many more than 100 countries extracting oil and gas; the majority falls on the wrong side of the spectrum, succumbing to the resource curse. Oil and gas riches become concentrated in the hands of a minority, the economy becomes unbalanced, and poverty, conflict and corruption increase exponentially. And this is not an opinion. There is a robust body of evidence confirming this pattern.

When oil and gas were discovered in the North Sea, Norway already had strong institutions in place. I fear Lebanon does not have the same privilege. Perhaps a lot has been done, but a lot more remains to be done in order to put the right institutional framework in place to allow us to win in the lottery and use the ensuing wealth wisely.

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