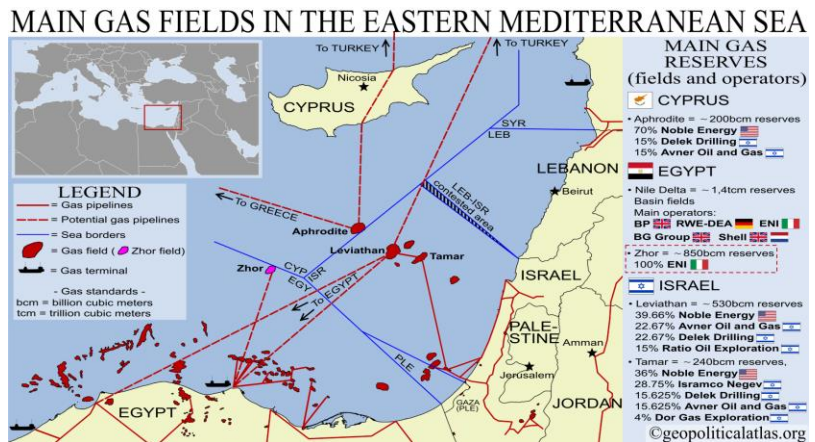
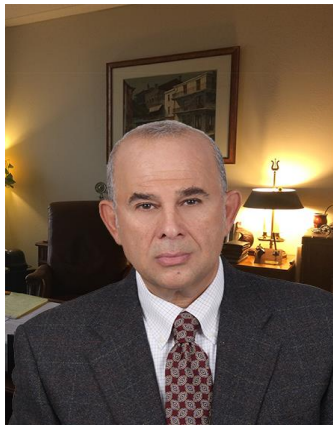


Lebanon's Oil & Gas

The Tension in Lebanon is on the rise between the objective functionality (NOC) and the subjective phenomenology (LPA)

The Creation of the National Oil Company (NOC) vs. the political domination of the Petroleum Administration (LPA)



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Lebanon's Oil & Gas file has been subjected to the **3D** attorney practice of self-defeating process: **Distort, Deny, and Delay**. That is why, after 3 years of opacity, the country has not drilled its first Gas well yet in the hope to invite more foreign Oil Companies to submit offers on any of the five Blocks offered on Lebanon's first Licensing Round. **HELAS!**

We all are and have been in support to maximize the benefits to Lebanon on its Oil & Gas opportunity. We are also eager for this beloved country to drill its first Gas Well offshore, ASAP. However, we disagree on the business model and the mechanics to serve Lebanon best.

The message here below is intended for the Petroleum Administration (LPA) in response to two articles recently published by its Media-Tool in Lebanon, Matt and Mona, the M&Ms at Executive Magazine. Our message is constructive in nature and I apologize to anyone who might be offended by the facts we offer and which we derive from decades of hands-on experience in the Oil & Gas industry. I also hope that our audience would forgive my tenacity to offer the truth as it pertains to Lebanon's best interest. Please treat our recommendation with less skepticism than the usual uniqueness to the LPA's phenomenology and, if you would, humor me as events develop to clarity in the near future.

Now Lebanon's Oil & Gas Taxation Law has passed, the Fiscal System directed by the LPA is near completion. However, some Experts on this planet are calling the Petroleum Law of Lebanon as inconsistent as the weather in Texas. This law is plotted to serve the few egregious individuals and to exclude the many, the general public. However, as common sense tells us, if your legs are injured you just cannot run.

The problems with Lebanon's Oil & Gas cannot be pinned on the status-quo in Syria or on Israel because Lebanon's prospect-leads in the EEZ are located 70Km offshore; even the disputed area with Israel has a solution if the LPA would have been pragmatic enough. Rather, the problem the LPA is facing today is the by-product of the nature of path and the "Licensing Rounds" business model selected by the government its well-paid Consultants to pursue the opportunity.

Unknown to the LPA and many local politicians, blinded by the cause to justify the means to corruption, the greatest threat to Lebanon's Oil & Gas file is the regional political juggernaut led, in controversy, by Russia and the USA. Obviously, the outcome will determine whether Europe would have an alternative (Russia vs. EMED) to its Gas supply. This maneuvering by the two super-powers could bring the dream of most Lebanese to a halt... The death trap is to keep Lebanon dependent on Fuel import and to protect Israel from having a competitor nearby.

By having the NOC, however, Lebanon could have avoided dealing with the complexity of Taxation, Transparency, Delays and, most importantly, not having the means to drill the first Gas Well. An independent/non-political National Oil Company of Lebanon (similar to the Central Bank in corporate nature) could have entered into Joint-Venture(s) with several IOCs without any cost to the government, except for its own executive committee on operation, to drill anywhere Offshore at any time the NOC sees fit. This is because the NOC would represent the government itself. In another word, the NOC (not the Licensing Rounds) would have been the right choice for Lebanon's political culture in terms of objective functionality.

We have met with a handful of advisory firms in the United Kingdom and the Middle East. With all due respect to the LPA, it has been a smear that the regulatory body on Oil & Gas in Lebanon is also the entity to handle the commercial and scientific aspects of the business; unheard of... Hence, the unique subjective probability by the LPA has chiefly caused the delays to drill offshore Lebanon.

The absence of the State instrument on Oil & Gas Operation (namely its NOC) has caused a great impediment to Lebanon. Also, since the Petroleum Law stipulates that the LPA is being the exclusive venue to enforce it, it would only represent the wishes of a corrupt system and Lebanon's Oil & Gas would remain *non-executable*.

Furthermore, to the many of you (self-claimed experts), no layperson could give a professional opinion about Oil & Gas Operation unless he, or she, has the hands-on experience, and neither could most members of the LPA. For instance, analogically, I have a hobby reading the Medical Journals, intensely, and I may seek some short-term education within the community. However, would you consider my opinion as an expert on Brain Surgery(s)? Of course not... And so, why

should we believe that the LPA has made the right choice on the business model related to Lebanon's Oil & Gas hiring consultants who are primarily loyal to foreign companies, the IOCs?

The Conundrum started with the Petroleum Law which was initially and intentionally created wrongfully with the LPA's lack of expertise in Oil & Gas only to serve the specific interest-group(s) in Lebanon. I say it with an assertion that politicians and the excremental system in Lebanon feed on opacity and confusion because it creates windows leading to corruption. And there are at least two Judges (men of the law I know of) in Lebanon who are in power and had helped the LPA create the Petroleum Law based on existing and corrupt commercial system(s).

True, all parties agree to maximize the Benefit(s) to the State and, at the end of the day, we have computed it, in-house, to be at around 70% of 100% of the Oil & Gas Production. Mr. Wissam Zahabi, a key-member at the LPA, may also confer the same. However, what we don't agree on is the venue to deliver the 70% benefits to the State without most of it dripping into the pockets of local Politicians.

Another issue where we disagree with the LPA is that what Lebanon really needs, under the circumstances, is a Production Agreement to include the hands-on participation of the State thus guaranteeing the 70% of 100% Benefit. Our model is based on objective functionality (facts & numbers) by means of securing the NOC' Carried Working Interest (WI) vis-à-vis the LPA's "Profit-Oil" Model which is illusive because it is based on intuition and the phenomenology of variables & uncertainties.

The fake-news has it that Lebanon could not raise the indigenous capacity to establish the NOC. I couldn't disagree more as the Gulf of Arabia and the world are loaded with Lebanese Oil & Gas professionals (100's of them) who are more than willing to serve Lebanon. Though, we only need the few. Don't let the peacocks of distort tell you stories about not having indigenous capacity in Lebanon to work the upstream operations. What happened to Bassil's hammer on the Lebanese Diaspora, or is it designed to only encourage investment, and not expertise?

Therefore, the Maximum Benefit to the State can only be delivered if and when the State establishes the proper entity (or instrument) to perform the task. It is clear in our mind (as Oil & Gas Professionals) that Lebanon's NOC would be the most efficient tool to do the job.

The Hydrocarbon in Lebanon's deep-water is mostly (over 80% of it) in Natural Gas. Low Oil prices offer the opportunity to drill offshore at less expensive Rig-rates (by 30% from the time when Oil was \$ 100/bbl). Therefore, lower expenditure would yield higher return (ROI) to Investors when the HydroCarbon is discovered and made available (in 2 to 4 years) to ship to domestic and foreign markets. By then, we anticipate higher Oil & Gas prices. This reality is in addition to the fact that the IOCs enjoy the discovery of long-term (20 to 30 years) in Gas Reserves because it increases the value of their Assets and, ultimately, the hike on their Stocks on Wall Street.

Consequently, ya Ms. Mona Sukkarieh, the attractive fiscal terms offered by the LPA to the IOCs now is, in the long-haul, suicidal. That is exactly what happened to the country of Cyprus

when they signed a Production Agreement similar the LPA's (based on Profit -Oil) with Noble Energy-USA (70%) and the remaining (30%) gone to two Israeli Oil company(s) equally divided between Delek and Evner. And Cyprus has been on hot-air, not Natural Gas, since!

Let's drop the naiveté' for a minute

Please carefully review Article # 6 (State Participation) of the Petroleum Law (132/10) and the fact that the NOC is not mentioned anywhere else within the Law, not even in the Production-sharing provisions if the Gas-Wells are declared commercial. This constitutes that neither the LPA nor its Ministerial arm has any intention to create the National Oil Company, not ever... And, how could the country and the people of Lebanon (holistically) base their hopes on the exclusive opinion by the LPA in regards to the creation of the National Oil Company when it is taken the LPA for ever to drill? **The National Oil Company could have drilled offshore 2 years ago!**

What the LPA and its cronies are recommending is for the country to be dismembered first and to find the remedy later; which is absurd as the remedy (the NOC), considering the status-quo, may take forever to establish only by then it would be too late!

While the layperson(s) cannot tell the difference, we (the Oil & Gas Scientists) can detect the presence of Hydrocarbon (underground, onshore or offshore) based on extensive 2D & 3D Seismic, Geology and the Production nearby the area of our interest. This is the case offshore Lebanon and we are certain that the Gas Reserves, at least under Blocks 5, 8, and 9, are in mammoth proportions and we consider them proven Reserves.

Thus, since we have established the likelihood of discovery offshore Lebanon to be very high, the Royalty of 4% on Natural Gas is considered mediocre at best. As a matter of fact, it is very low considering the world's average of 12.5% to 20% of the Total Oil & Gas Production. The Override Royalty is measured by the scale of two factors:

1. **The likelihood of discovery;** offshore South of Lebanon, is 75% (very high); and,
2. **Low Risk,** fear of political shift and changes.

The 2D & 3D Seismic offshore Lebanon, by the reputable PGS and Spectrum over the past 7 years, and the Mega-Gas discovery in the vicinity have made it clear that Gas Reserves are present and proven offshore Lebanon. As for the political Risk to Investment, the prospect-leads are located 70Km offshore. Therefore, the Oil & Gas production will be untouchable and the State participation in operation can only be preserved by means of its NOC, not the LPA's regulatory function.

Arbitrarily, let's ask the Petroleum Administration of Lebanon (LPA) the few questions:

1. Why risk enforcing the "profit-oil" Agreement model, which is uncertain because of the so many variables, when the LPA could have embraced the "Carried Working Interest" model which is certain, clear-cut, to the State?
2. The world's average cost recovery on expenditure to the IOCs is 30%; Why is it 60% in Lebanon's Oil & Gas Law?

3. The LPA's "attractive Fiscal Terms" is questionable because, in the Oil business, the attraction to invest in drilling prospect-lead(s) is the likelihood of Oil & Gas discovery and low risk. Anything else is banana-cocktails for Monkeys, not even icing on the cake. Hence, why does the LPA insist on Taxation and "Profit-Oil" instead of an increase in Override Royalty and/or Carried Working Interest to the State?
4. Cost Recovery by a factor of 1.50 means that the IOCs would make 50% on the Cost of Money. This is a chill, a rip-off, as the world's average is 1.20 (top), depending on the factor of Drill bit-to-Production timing. Then, you'd have to ask yourself the puzzling question: Where would the difference go, in whose bank account(s)?
5. The LPA hires Consultants who greatly benefit from the IOCs (outside of Lebanon) on on-going basis, why would the Consultants serve Lebanon's short-term basis?

And here are some of the Benefits to Lebanon having its own National Oil Company:

- We don't have to worry about Taxation because the IOCs would be exempt in return for the State's Working Interest, carried to the Wellhead
- We don't have to worry about Transparency because most (up to 80%) of the Oil & Gas Revenue will be directed to the Sovereign Funds, managed by Lebanon's Central Bank or its Ministry of Finance
- We don't have to worry about corruption because the IOCs form partnerships with the NOC that would supervise the daily operation on behalf of the State. So, the IOCs have nowhere to hide and the vultures are kept at bay. NO MORE CONUNDRUMS
- The NOC would create a continuing-education center dedicated to Oil & Gas Science to train University graduates and to subcontract them to the IOCs
- The NOC would be managed by highly-qualified Technocrats, experienced in Oil & Gas, and not by the few inexperienced pro-politicians.

And so on... The list of benefits to Lebanon having its own NOC is long and, as you can tell, the question remains: **Why are the LPA and the self-propelled Politicians in Lebanon creating hurdles against the NOC if they don't have anything to lose?**

This matter, to create our NOC (the Watch-dog on behalf of the people), concerns all Lebanese and for us to rise above the notion of guilt and failure. **THIS IS NOT ABOUT YOU AND ME!**



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