

# THE GEOPOLITICS OF OIL AND GAS DEVELOPMENT IN LEBANON

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### Summary

The Lebanese-Israeli maritime border dispute in an area potentially rich in oil and gas perfectly embodies the entanglement between economic interests and geopolitical stakes. This policy brief questions the prospects of Lebanon's plans to exploit its offshore oil and gas reserves considering its dispute with Israel over an area of about 850 km<sup>2</sup>. Since Israel has already started extracting natural gas from fields close to the Lebanese maritime borders, it has implicitly given Lebanon the opportunity to develop similar projects on its side of the borders. Our analysis suggests that despite the stalling legal process to resolve the dispute, working in the disputed zones, from the Lebanese side, is possible. The decision whether to operate in such a context is linked to the will and interest of international oil and gas companies to adapt to the pertaining geopolitical context rather than to Lebanon's interest in developing projects in the disputed area.

## MAIN RECOMMENDATIONS

- ▶ The Lebanese government should continue to demand its sovereign rights over the disputed zone with Israel. However, the dispute is not likely to prevent the development of offshore oil and gas projects in Lebanon. The economic stakes for both Lebanon and Israel are too high to be risked by an escalation of tension over the disputed zone. In a way, a byproduct of a large-scale oil and gas development in the East Mediterranean is to give extra incentive to keep things calm.
- ▶ While the Lebanese-Israeli maritime dispute is highly intertwined with the region's history and geopolitics, there is another, less pronounced, dispute between Lebanon and Syria of an area about 1,000 km<sup>2</sup>. Clearly, the Syrian government has been occupied with more pressing issues related to the country's armed conflict, but Lebanon should also attempt to resolve this issue as soon as possible.
- ▶ While not dismissing the idea, it is too early to talk about exporting Lebanon's oil and gas resources. It is not clear that there is a ready market now, and the focus should continue to consider domestic use. Such a recommendation being conditioned on the effective discovery of hydrocarbons in blocks 4 and 9 in the near future.

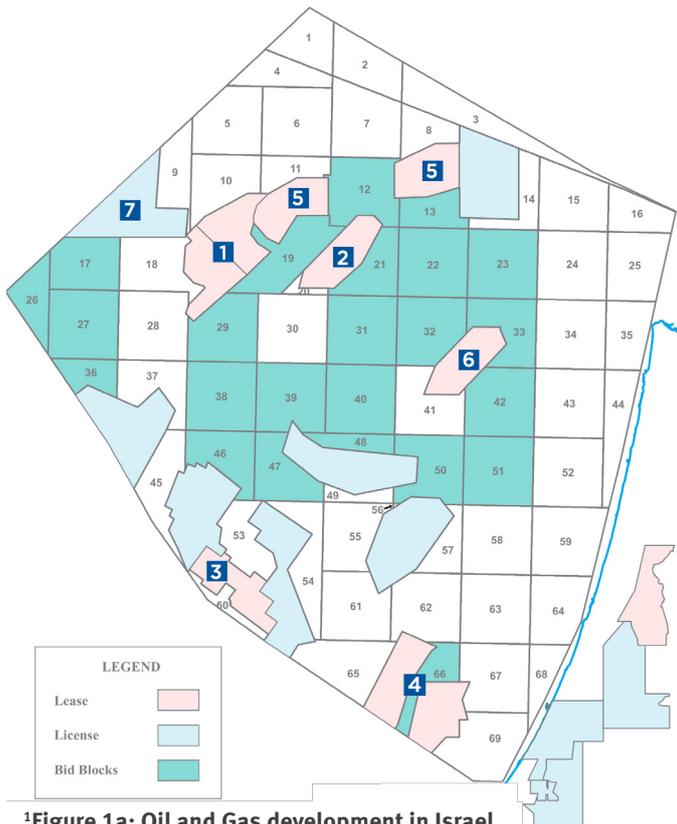
### Context and development of the territorial dispute

The main component of the maritime border dispute between Lebanon and Israel is the non-recognition by Lebanon of the State of Israel since its creation in 1948. It is the reason why the two countries never jointly delineated their maritime boundaries, but through bilateral agreements with Cyprus, following the rules of the United Nations Convention on the Law of the Sea (UNCLOS) of 1982 concerning the delimitation of their Exclusive Economic Zone (EEZ). This non-recognition and the way agreements were negotiated initiated the actual dispute. In October 2010, Lebanon sent its EEZ delineation to the United Nations to register its maritime border after an agreement with Cyprus in 2007 and a new delineation determined by the Lebanese Parliament in 2009. This delineation was then confirmed by the Law 132 of August 2010. Similarly, in July 2011, Israel officially adopted its own EEZ after negotiating it with Cyprus, creating an overlapping zone between the two countries' territories of 850 to 870 km<sup>2</sup>. Israel decided to ignore the Lebanese Law and only considered the unratified 2007 Lebanese-Cypriot agreement when negotiating their own border with Cyprus.

The presence of potentially substantial reserves of hydrocarbons in the disputed area highlights the need for a clearly delimited EEZ for Lebanon and Israel. In 2009-2010, Tamar and Leviathan natural gas fields were

discovered in Israeli offshore waters. In 2011-2013, more fields were discovered in deep waters including the Karish and Tanin fields, which are very close to Lebanese waters. Geographic proximity between Israeli and Lebanese blocks increases the confidence of experts and analysts that similar fields lie in Lebanese waters.

As shown in Figure 1a, the Karish and Tanin fields are a few miles away from Lebanon’s EEZ and have estimated reserves of 2.35 trillion cubic feet of gas and 33 million barrel of light hydrocarbons liquids.



<sup>1</sup>Figure 1a: Oil and Gas development in Israel

Main fields are:

- 1: Leviathan gas field, under development
- 2: Tamar and Tamar SW gas fields, producing
- 3: Shimshon gas field, under development
- 4: Mari B and Noa gas Fields, produced 25 BCM since 2004
- 5: Karish and Tanin gas fields, awaiting development
- 6: Dalit gas field, not developed
- 7: Aphrodite/Ishai gas field, not developed

1. Source: Israeli Gas Opportunities

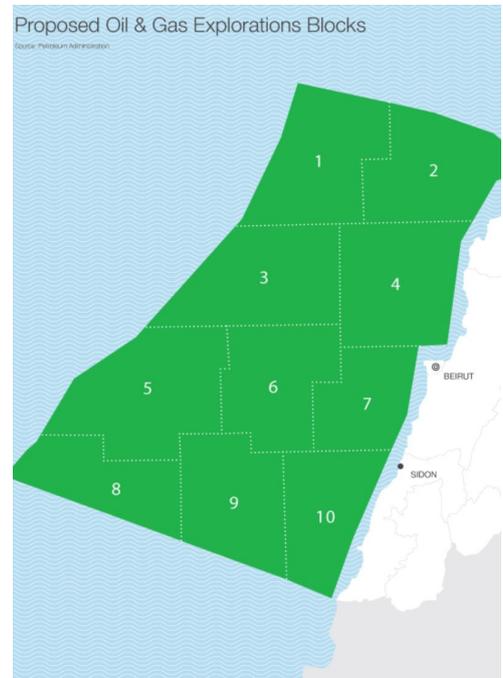


Figure 2: Lebanese Exclusive Economic Zone (EEZ)

**“Geographic proximity between Israeli and Lebanese blocks increases the confidence of experts and analysts that similar fields lie in Lebanese waters”**

**A nearly impossible settlement under international law**

As the Mediterranean is a semi-enclosed sea, article 123, Part IX of UNCLOS, states that “states of this area have a general obligation to cooperate when facing a disagreement”. To avoid implicit recognition of Israel, Lebanon did not determine a triple point delimitation between its own territorial waters, Cyprus and Israel. Evidently, once this triple point has been located to the satisfaction of the three parties, the conflict, in its legal aspect, would be resolved. Lebanon’s continued policy of non-recognition towards Israel naturally blocks the use of legal procedures from international law involving direct negotiations between the two States, such as conciliation, arbitration, or submitting the case to the International Tribunal for the Law of the Sea (ITLOS).

Even the International Court of Justice is highly unlikely to be successful, as Israel does not recognize its jurisdiction. Additionally, soliciting the UN peace-

keeping mission in South Lebanon, UNIFIL, is not possible in this case, unless its mandate is modified.

Since the beginning of the dispute, the United States has attempted to mediate between Israel and Lebanon, though its efforts have not been successful. Special envoys were sent to encourage negotiations and find a solution to the dispute. Initially, Frederic Hoff's "blue line" proposition (a maritime blue line establishing a neutral zone between Israel and Lebanon) was deemed "interesting" for both parties as a temporary settlement. However, when Amos Hochstein made the same proposal after succeeding Hoff, Lebanon strongly rejected the proposition. Since the election of President Trump, Hochstein's replacement appears to be on hold. Considering the United States' incapacity to handle a third-party negotiation, Lebanon and Israel solicited the United Nations, a solution Lebanon has consistently called for, since it is the only way that does not require any previous or future agreements with Israel. In 2017, the United Nations General Secretary eventually agreed to see

***“The decision by the consortium to bid for block 9 could be linked to it having a plan to reduce the associated risks and/or obtain a preferential treatment by the Lebanese government”***

negotiations take place under the UN oversight. There is no precise agenda yet, but the Lebanese side is confident that such indirect negotiations are going to happen soon. However, such mediation procedure under the UN umbrella would only be a first step of a lengthy process.

#### ***The position of oil and gas companies***

One can safely argue that clearly defined borders of a "region of interest" is a key criterion for a company to invest in the region's oil and gas resources. There are indeed some major risks that can be associated with investing in a disputed zone. These risks include failure of the host state ownership claims, increased expenditures, and possible escalation of tension, perhaps reaching the level of an armed conflict. Still, a consortium of three major oil and gas companies has shown a bid for Lebanon's block 9 (see Figure 2), which is one of the zones containing a disputed area.

The decision by the consortium to bid for block 9 could be linked to it having a plan to reduce the associated risks and/or obtain a preferential treatment by the Lebanese government. In return for accepting higher levels of political risks, companies can negotiate terms of their contracts with host governments in a more favorable way, including indemnities in case of losses, limitations of the company's obligation regarding the border risk or a force majeure provision. Companies could also invest in blocks with disputed territories, but develop activities only in the non-disputed parts of their blocks. That is how the Lebanese Petroleum Authority (LPA) has initially justified the opening of blocks 8, 9 and 10, which include disputed areas, for bidding.

Another way to reduce the risks associated with operating in a disputed region would be for companies to help their host state (Lebanon) resolve the dispute. This can be achieved through assisting, funding or providing legal expertise. It should be noted that major oil and gas companies are often backed up by powerful states, which could also help to resolve the dispute, and protect their companies' interests through diplomatic means.

The oil and gas industry is perhaps one of the most politicized industries. Thus, companies would rather forgo promising resources than damage their international image and credibility. This is probably why both the Lebanese and Israeli bids were not so successful in terms of the number of applications.

Since Lebanon is starting to develop its energy sector, oil and gas companies may look favorably at the Lebanese market due to perceived weak governance and regulatory bodies. It is far more complicated to deal with a legislator that wants to control every step of exploration and production, as it has been the case recently in Israel. Consequently, despite the objective of reducing uncertainty, if feasibility studies done by the bidding companies yield a positive net present value, they would probably still invest in the project.

Based on the latest bidding round in Lebanon, it seems that the disputed zone has not discouraged companies. The bidding consortium wants to develop block 9, which has about 150 km<sup>2</sup> in the contested zone. It should be noted that block 9 is close to the Karish field in Israeli waters, which gives strong signals that it is highly likely to be commercially viable. Additionally, Noble Energy has expressed interest in Alon D in Israeli waters, confirming the high probability of hydrocarbon presence in the area. The disputed zone, rather than being a threat for companies, is becoming the most valuable zone of Lebanese waters.

#### ***Is there a market for Lebanon's oil and gas?***

Since 2009 and the Tamar and Leviathan fields discovery, Cyprus and Egypt made similar discoveries, with the Aphrodite field in 2011 and the extraordinary Zohr field, in Egypt, in 2015. Such discoveries also lead to a number of propositions for multilateral projects and alliances such as between Egypt and Israel; Cyprus, Greece and Israel; Cyprus and Lebanon. Most of these propositions eventually aim to export gas to Europe.

So far there are no solid plans as to where or by which

means Lebanon's oil and gas are headed, especially with all neighboring countries having their own plans and the international market seems saturated at this moment. It should be noted, however, that exporting natural gas to Europe is not the only option. If demand picks up in Asia, for example, Lebanese gas could potentially find new destinations.

Export potential and plans will depend on the proven reserves determined by exploration and drillings in blocks 4 and 9, and may not be considered as a priority by the Lebanese government. According to the LPA, Lebanon has an annual need for 0.2tcf. This means that if Lebanon is to rely completely on its own gas resources, it may require between 6 to 10 tcf for the next 30 years in the power sector. At this stage, one should be cautious about exploitation perspectives, but in any case, the domestic market will likely be attractive for companies, especially since the international gas market is saturated and Lebanon is already paying the market price.

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