

# FIRST OIL AND GAS LICENSING ROUND: THE FUTURE OF OIL AND GAS IN LEBANON



**With more than 100 trillion cubic feet of recoverable natural gas in the East Mediterranean Sea, the Levant Basin is a new attractive area for the oil and gas industry. In particular in Lebanon, the Government is actively committed to developing the oil and gas sector and has gained some momentum in its work to exploit the reserves. In 2012, the Lebanese Petroleum Administration (LPA) was established as a regulatory body in charge of managing the petroleum sector and putting in place the petroleum activities regulations required to launch the first Lebanese offshore licensing round.**

## **Tender process**

After a first pre-qualification process launched by the LPA in 2013, and more than three-year delay period due to internal political deadlock, the Lebanese Council of Ministers eventually approved, on 4 January 2017, two crucial decrees to the completion of the first licensing round. After a new round which closed on 31 March 2017, eight new international oil and gas companies prequalified, bringing the total number of prequalified companies, including those accepted in 2013 and which still meet the pre-qualification criteria, to 53 including 13 operators.

## **Legal framework**

### **The Offshore Petroleum Resources Law**

The offshore oil and gas regime in Lebanon is governed by Law No. 132/2010 dated 24 August 2010 known as the Offshore Petroleum Resources Law (OPRL).

### **Scope**

The OPRL applies to upstream and downstream activities (the "Petroleum Activities") within territorial waters, waters of the Exclusive Economic Zone (EEZ) and the Lebanese continental shelf.

### **Petroleum Activities**

The OPRL governs petroleum reconnaissance, exploration, appraisal, production and exploitation, laying of pipelines, transportation (excluding transportation in bulk, by vessel or vehicle) and the development of facilities as well as the cessation of such activities and the decommissioning of facilities.



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ROBERT FOLLIE, GLOBAL HEAD OF ENERGY & RESOURCES, AND PARTNER

### Ownership of resources

The OPRL grants exclusive ownership of petroleum resources and their management to the Lebanese State.

### State participation, royalties and taxes

The Lebanese State has the right to carry out or participate in Petroleum Activities. The net proceeds arising out of such Petroleum Activities shall be placed in a Sovereign Fund which shall be regulated by a specific law, and is composed of:

1. **Royalties:** which can be collected in cash or in kind and are calculated on the basis of the total petroleum extracted from the reservoirs.
2. **Profit-sharing:** after a commercial discovery is made, profits are shared between the Rights Holders and the State, after deduction of royalty and cost recovery.
3. **Taxes:** in accordance with the Lebanese tax laws and regulations. A new taxation law for Petroleum

Activities, approved by the Council of Minister on 8 March 2017, shall be enacted soon.

### The Petroleum Activities Regulations (PAR)

The PAR, governed by Decree No. 10289 dated 30 April 2013, provides legal, technical, commercial and QHSE regulations to conducting Petroleum Activities in Lebanon including legal representation of the Right Holder, management system, general duties of the Operator and the Right Holder, strategic environmental assessment study, exploration and production rights, petroleum production and transportation, cessation of petroleum activities and decommissioning of facilities, local content provisions and prevention of corruption.

### The decrees

Decree No. 42 delineating the EEZ into ten blocks and delimiting their coordinates and Decree No. 43 setting the Tender Protocol (TP) and the model of the Exploration and Production Agreements (EPA) to be signed

between the Lebanese Government and the successful bidders, dated 19 January 2017 supplement the OPRL and the PAR.

### Petroleum rights

The OPRL provides for the following types of petroleum rights depending on the activities to be undertaken by the Right Holder:

#### Different types of petroleum rights

1. **Reconnaissance license:** issued for undertaking studies and surveys, such authorisation is granted by the Minister of Energy and Water (MEW) based on the opinion of the LPA, for a limited period up to three years on a non-exclusive basis. The resulting data are the property of the State.
2. **Exploration and production rights:** awarded by the Council of Ministers pursuant to an EPA consisting of two phases:
  - An authorisation for the exploration phase for a period not exceeding 10 years.
  - An authorisation for the production phase for a period not exceeding 30 years.
3. **License for plan for placement and operation of facilities:** a specific authorisation may be granted by the Council of Ministers for the construction, installation and operation of transportation or storage facilities.
4. **Production permit:** no production of Petroleum shall be carried out without having obtained a Production Permit granted by the MEW. Such Permit is granted for a period of one year which can be renewed annually and shall identify the quantity of Petroleum which may be extracted and consumed, rejected, flared or vented.



There has been an ongoing debate in Lebanon over whether a National Oil Company should be established or not. The OPRL, adopting a very prudent approach, grants the Council of Ministers the right to establish a NOC once the existence of promising commercial opportunities has been confirmed.

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### Transfer of rights

Rights and obligations obtained through a petroleum right shall only be transferred or assigned in whole or in part to a company qualified under the OPRL after having obtained the approval of the Council of Ministers. An assignment of shareholding which provide decisive control of a company processing a participating interest in a petroleum right shall be subject to the same rules. Transfer of Right Holder ownership or right of use of a Facility shall only take place after the Council of Minister approval.

### Exploration and production agreements

The OPRL adopted a hybrid system combining profit sharing with royalty system, implemented through an EPA. The EPA is a contract between the State and at least three companies - the Right Holders - providing these companies with the exclusive right to carry out Petroleum Activities in the contract area, and awarded in a competitive bidding process. One

of the Rights Holders shall be the Operator, responsible for carrying out day-to-day activities, although all Right Holders are jointly and severally liable for their obligations.

The EPA defines the rights and obligations of the Right Holders between themselves and toward the State including provisions relating to:

- The coordinates of the awarded block.
- The term of the EPA and the duration of each of exploration and production phases.
- The allocation of State and Right Holders participation interests.
- The minimum work obligations and expenditure commitments.
- HSE matters.
- Royalties rates (for crude oil: sliding scale ranging from 5% to 12% based on a monthly average daily production rate/for natural gas: flat royalty of 4%).

- Accounting rules and methods for determining profits.
- Changes in law and regulation and force majeure.
- Assignment and mortgage.
- Dispute resolution and arbitration.
- Joint Operating Agreement to be entered into between the Right Holders.
- Accounting and Financial Procedure.
- Guarantees including Parent Company Guarantee, Work Commitment Guarantee and Joint and Several Shareholder Guarantee in accordance with Annexes to the model of EPA.

### National Oil Company

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### What next?

Prequalified companies are now invited to submit their bids on the five open blocks by 15 September 2017. The evaluation of the bids and the signature of the EPA will follow on the 15 November 2017 after a two-month period for negotiation. Bids will be evaluated by the LPA based on technical (30%) and commercial (70%) criteria. Given the success of the second pre-qualification round, companies shall now keep up to date and anticipate next steps, non only in the upstream sector but also in the midstream and downstream industry.



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