

**LEBANESE AMERICAN UNIVERSITY**

Oil in Divide Society: Blessing or a Curse?  
The Case of Lebanon

By

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A thesis

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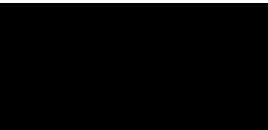


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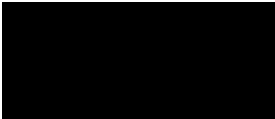


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Dedication

To My Loving Father

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# Oil in Divided Society: Blessing or a Curse?

## The Case of Lebanon

Hiyam Moussa Soweidan

### ABSTRACT

Natural resources and the energy industry are two strong and critical sectors of the economy for many nations. This is especially true for nations that are dependent on natural resources for their economic development and revenue. The discovery of natural resources has different effects on different regions around the world which raises many important questions. One recent example is the nation of Lebanon. The concern here is whether the recently discovered natural resources will be a blessing that brings hope and prosperity to the country or a curse with negative economic, social, and political ramifications. The latter has been influential in so many other countries and Lebanon is no different. Unfortunately for many nations, history has shown that such discoveries have faced instability and internal strife. This thesis will assess, in general, the impact of oil on different oil producing countries: Nigeria, Kuwait, and Lebanon as a case study. There are many nations that depend on natural resources that have been able to become successful (Kuwait) while others have failed (Nigeria). After comparing Lebanon with Kuwait and Nigeria and analyzing expert opinions, political events, and the structure of the nation, Lebanon is currently heading toward a critical crossroads as there is much uncertainty about the fate of the natural resources industry. Although there is time to change and take advantage of the discoveries to create a blessing for the nation and its people, a failure to do so could lead to a curse instead.

Keywords: Blessing, Corruption, Democratic theory, Lebanon, Resource curse, Rentier effect, Modernization theory, Oil, Transparency, 8<sup>th</sup> of March Movement, 14<sup>th</sup> of March Movement.



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## **List of Abbreviations**

- **EEZ-** Exclusive Economic Zone
- **FPM-** Free Patriotic Movement
- **IEA-** International Energy Agency
- **LPA-** Lebanese Petroleum Administration
- **MEND-** Movement for the Emancipation of the Niger Delta
- **MoEW-** Ministry of Energy and water
- **OPEC-** Organization of the Petroleum Exporting Countries
- **SWF-**Sovereign Wealth Fund

# Chapter One

## Introduction

Oil is considered one of the most important natural resources for any country. Most of the developing world has become wealthier, more democratic, and less violent. However, this has mainly occurred in countries that are not necessarily considered oil rich countries. Most oil-rich nations have less democracy, less economic stability, and more frequent civil wars than countries without oil. In the Middle East, and mostly in oil-rich countries, the growth of market economy was mainly repressed by political restrictions and corruption. Oil mainly pertains to a nation's economy; therefore, the politicians who control oil money will create corruption.

Many oil producing countries such as Algeria, Libya, Nigeria, Sudan, and Iraq have been scarred by civil wars, but oil has also brought wealth and power to the Western world. Oil dependent countries became among the most troubled economically. Oil-rich countries with authoritarian regimes have the most conflicts in the world (Ross, 2012). Economic development, especially in poor counties, is usually expected to bless a nation with higher standards of living. Conversely, it is considered to be a curse, especially in the global south and in parts of the more industrialized world. These countries have grown gradually with greater inequality. On average, oil-rich countries have performed poorly in comparison with countries that lack natural resources (Stiglitz, 2012).

The question of whether oil in divided societies is a blessing or a curse is a crucial issue. A divided society is one in which violence occurs or the threat of violence keeps citizens divided. Such divided society results in an inability to agree on a common process for making decisions. Moreover, it makes it harder to achieve peace and reconciliation – although, ironically, poor and divided societies are among the world’s richest oil nations. What explains this oil curse and how can it be fixed? The Middle East’s oil caters to global demand, but the question remains: Why are many countries still so poor and divided in light of the access to such incredible resources?

Power and oil are good sources to build a successful economy. Mainly the gulf countries that have oil wealth and low population, such as the United Arab Emirates, Kuwait, Qatar, and Bahrain have successful economies. Middle Eastern oil is very important to the rest of the world because the region generates a significant portion of the oil industry. Furthermore, it contains most of the world’s known oil reserves, and it is considered the world’s top oil-producing region. In previous years, the international committees have spotlighted many deeply divided societies, including Lebanon and Nigeria. The oil industry in Nigeria has faced severe political and economic corruption due to a history of different military regimes and multinational corporations.

The discovery of natural resources in different regions around the globe raises many important questions. For example, in Lebanon, the concern is whether natural resources will be considered a blessing that brings hope and prosperity to the country or a curse with negative economic and political ramifications. Since the latter has been the case in so many other countries, the political arena in Lebanon might prove a notable barrier to

progress. Furthermore, being in a state of war with bordering Israel – which is in close proximity with the potentially rich zone – does not help the situation.

It is important to explain in brief the Lebanese economy after 1975, the impact of war on the Lebanese economy, evolution of the Lebanese economy in the 1990s, and the reconstruction and development plan. Currently, there are a number of issues that hinder gas and oil related profit in Lebanon. These include: different sects, local political issues, the licensing round, the maritime border dispute, export options, potential markets and regional cooperation.

After the civil war, Lebanon started to rebuild its economy. Early 2013, Lebanon officially launched its first oil and gas licensing. Territorial disputes and the tension with Israel might prevent Lebanon from developing part of its oil and gas resources; however, the discoveries of oil and gas raised many issues, politically and economically. There are a number of factors that could delay the process, mainly because of the divided political system. One can make the hypothesis that the success or failure of exploiting Lebanon's natural reserves depends heavily on how the Lebanese government regulates and manages all possible risks pertaining to internal, border disputes and “excavation means.”

The formation of the Petroleum Authority was a very important step toward oil exploration in Lebanon. In 2011, the Lebanese parliament passed a law for locating the country's maritime boundary and the Exclusive Economic Zone. According to officials in the Lebanese government, by 2015, the country might witness the beginning of the oil exploration process. Oil wealth should create an opportunity to decrease the country's debt.

As many as 46 international oil companies were approved to act as “operators, non-operators and right holders.” According to Jean Aziz, a Lebanese journalist stated that “the main reasons behind the delay are: political powers seek to discredit Bassil’s achievement; some have business interests with monopolistic purposes, major governmental concerns and foreign interests” (Aziz, 2013). Lebanon has been held up from improving its financial conditions, relieving its deficit and settling its debts.

Mohamad Ahmad, coordinator and professor of chemical engineering at AUB, said “oil and gas will turn Lebanon into an industrial economy; it will be like the Gulf when we have oil and gas, and this will become a reality.” The countries that border the potential gas-rich basin are Lebanon, Syria, Israel, Turkey, Greece and Cyprus. Israel claims “that Block 9, one of the richest areas in terms of commercial gas deposits recently discovered that the Mediterranean-extends into its EEZ.” As Lebanon begins its first moves toward exploring its first natural resources, there are many concerns that could delay the process. These are caused by different sectarian divisions and conflicts, as well by “endemic corruption.”

The discoveries, exploitation, and the importance of oil in Lebanon have been explained in different ways from different points of views. Former Energy Minister Gibran Bassil stated that the Lebanese leaders “paralyzed” the petroleum file. Also he said that Israel can’t prevent Lebanon from defending its rights to protect its oil reserves because Israel started “digging 5 kilometers from Lebanese offshore reserves. Therefore the Lebanese officials will cooperate with the West to resolve and prevent any possible disputes that might occur with Israel. The exploration of oil in the country should be a way to build a

better future and it will be a very important factor to achieve prosperity, growth, and to maintain a nation with stronger infrastructure.

In order to evaluate the Lebanese case, it is necessary to give a brief history and explanation about the power-sharing model that currently operates between different political groups and sects, Western interference, the outbreak of civil war, and the impact of regional instability. The Issue of oil in Lebanon has recently been “overshadowed” by more pressing challenges.

The Middle East Economic digest observed that, “if ever there was a country that could test the theory of the ‘curse of oil’-- the idea that plentiful natural resources can generate more problems than solutions -- it is surely Lebanon.” There are several estimates, phases and future values regarding the potential discovery of oil.

Lebanon and Kuwait are two Middle Eastern countries, similar in size, but greatly different in economies. The resource curse has been explained and documented; for instance, Nigeria is similar to Lebanon with regard to the previous risk factors that are high in post conflict country such as Lebanon.

This is particularly the case because Lebanon remains in the early stage of the development of the hydrocarbon industry, with political consequences yet to be fully unraveled. However in Lebanon, the economy might become stronger, provide more job opportunities, and corruption must be limited. The MoEW estimates the first “drilling operation” will be launched in 2015.

This dynamic between social and political action on one hand and natural resources in the Middle East on the other is highly interesting. It is important to attain a broad understanding of how all three entities interact. This knowledge will allow for an ensuing presentation of solutions that will address natural wealth in poor nations. The following chapters will examine and explain the complexities and developments that characterize today's challenges in divided oil- rich countries as well as examine the relationship between instability and anarchy components that lead to natural curse.

Most of the powerful regimes have exploited it using different methods to maintain their position in power and control wealth. Ross traces the oil curse back to the 1970s, when oil prices “soared and governments across the developing world seized control of their countries’ oil industries.” Declining conventional oil reserves will occur due to “volatile prices, climate change, and enduring poverty in many oil rich countries” (Bridge & Le Billon, 2013).

Observers warn that the global thirst for petroleum is causing companies “to drill in increasingly poor nations, which could further spread the oil curse.” In literature pertaining to the fields of economics and political science, it is explained as a “resource curse” and surely that is just the opposite of what a person would expect. Ross explains in his book, “*The Oil Curse*,” how petroleum wealth shapes nations and examines the ways in which developing nations are shaped by their mineral wealth and how they can turn oil from a curse into a blessing. The author explains that the oil curse is considered a new phenomenon that came into effect after the 1970s. He believes it is not a coincidence that the Arab spring happened mainly in oil-rich countries. Many authors agree that authoritarian regimes have lasted longer in countries with oil wealth.



Hussein Askari clarifies that the two reasons for failure are economic and social. He analyzed the main reasons underlying the condition in the Middle East to relate to religion, corruption, instability, wars and foreign interference. Many scholars explain that Western support for the authoritarian governments might be a cause to limit access to oil. Ivan Eland argued in his book, *“No War for Oil: U.S. Dependency and the Middle East,”* that the use of U.S. military power to secure oil is not only needless and costly in terms of money and lives, but it is also “counterproductive to U.S. security.”

In his “Mitigating the Resource Curse for Extractive Industry: the Case of Lebanon” article, Imad Salamey, associate professor of political science at LAU, describes the regional and domestic challenges and possible developments, while specifically taking Lebanon as a case study. He explains that “Lebanon is a small, war-torn country in an unstable region” (Salamey, 2013). The main concern regarding the issue of exploiting natural resources is the unresolved tension between Lebanon and Israel, along with domestic and political divisions in Lebanon. Despite all the challenges that might occur, Salamey shows that there is an important indicator point “to a ‘blessing’ rationalism that may contribute to the transformation of the conflict toward cooperation” (Salamey, 2013). Along with domestic, international interference might be needed for “assuring the ‘blessing’ of extractive resources.” According to Arend Lijphart, a consociational theorist, “failure will occur when the elites compromising the ruling coalition cease to cooperate and compromise with one another and/ or when the power-sharing arrangements no longer incorporate every significant communal group in the society” (Seaver, 2000).

This thesis assesses, in general, the impact of oil on different developing oil producing countries: Nigeria, Kuwait, and Lebanon as a case study. This is described in greater detail in the following chapters, with explanations on how oil discoveries have been used by governments and analyses of the consequence and possible outcomes. Also, it explains why an oil rich country may actually end up worse off or better off.

In Lebanon, the existence of natural resources stays theoretical, until the potential discovery move into production. As a result, the entire state theory is problematic.

Lebanon like any other nation was grateful for the discovery of gas and oil off its shore and was regarded as an important factor to improve economic growth and provides better opportunities and benefits. Lebanon might contradict the beliefs in comparisons to other oil rich countries. Therefore, it will be a very challenging period for Lebanon. It might have a way out of the resource curse because economic conditions changes dramatically. Success or failure will rely on the ability of the government regarding how “it will manage and regulate different potential risks” (Sassine, 2012). The potential discovery in Lebanon might be successful, but it needs good governance and transparency.

The curse of the oil-rich nations must be avoided by examining the reasons and relationships among different divided oil-rich societies and mainly compare it to Lebanon, find solutions to try to end, or at least decrease, the resource curse. It is important to improve governance in oil producing countries. It is possible, in the future, to find that oil will be the wheel of fortune. Therefore, it will be a battle for oil and power. Resources should be considered a blessing not a curse. They are sustainable for a long time; therefore, it should have strong institutions, policies, and laws to cope with

said resources. This process will take time, but it will help ensure that the resources will benefit all citizens.

Institutions are considered important determinants of economic development. The only way to confront corruption is through transparency. Natural wealth might prevent the development of democracy, but there is no good evidence “that democracy per se leads to economic growth.” Oil and gas should be a source of wealth and peace rather than a source of conflict.

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cope with said resources. This process will take time, but it will help ensure that the resources will benefit all citizens. Institutions are considered important determinants of economic development.

This thesis consists of five chapters including this introduction and examines Lebanon's governing oil and gas sector thus far. The following chapters will focus and investigate the relationship between extracted resources, stability, and the divided political sectors for oil in Lebanon, as well as, review cases of different and similar countries to Lebanon. The focus will be on Lebanon's governing oil and gas sector thus far; the thesis will also draw lessons regarding how to mitigate the conflict in Lebanon, in terms of developing and governing this sector. Chapter II is the theoretical overview, much of the literature on the topic will look at different theories regarding oil and democracy. There are two different views about the extractive resources discoveries in Lebanon; the "recourse curse" and in contrast of that is a "blessing" view; therefore, for a deeply divided society "a road map that builds on international experiences and lessons learned is a prerequisite for a "blessing" transformation" (Salamey, 2013). According to Carole Nakhle, energy economist and research fellow at LCPS stated that realism is perhaps even more important with respect to the results. Chapters III and IV will draw lessons and analysis as to mitigate the conflict in terms of governing this sector. It begins with a historical overview followed by the main analytical part. As well discusses the challenges and internal differences within oil sector and examine a possible successful approach. Success cases in different countries have occurred, for example, Norway. Finally, chapter V is the conclusion.

There were a number of nations that could have been chosen to compare with Lebanon but the nations chosen had to be ones that were similar to Lebanon in its ethnic diversity and some relative tension based on this diversity. The diversity had to be large and significant enough to have some kind of effect on the nation (political, legal, social, etc). There were nations that could have been compared and studied (Saudi Arabia, Iraq, Sudan, etc) but choosing too many nations would be time consuming and might even seem repetitive. The decision was made to study only Nigeria and Kuwait because this would be more productive and allow more time to focus on Lebanon.

Kuwait is an Arab nation with a majority Sunni Muslim population and a minority Shia population. There is a significant level of religious tension between the two groups and this has been effected the political and social scene. The country has a strong economy and has been able to use its natural resources relatively well. Nigeria is an African nation that has a population mixed between Muslims and Christians. There is religious tension between the two groups and like Kuwait this has affected the political and social status of the nation although to a greater effect in Nigeria. Nigeria is still poorly developed and has not been able to benefit from its natural resources despite the fact that the extraction of these resources has been going on for decades. It also has a political system where political power is split among the Christian and Muslim populations which is a similar issue seen in Lebanon.

The blessing/curse parameter was selected because these natural resources have the ability to change a nation and its people. Many nations depend heavily on these resources and have successful in developing into completely different nations because of these resources. On the other hand, there are a number of examples where the nation has

become worse because of the discovery because of a number of poor internal issues such as ethnic tension and corruption. The terms don't have to be fixed on specific areas and could include all aspects of the nation (political, social, economical, foreign intervention, etc) are also strong and show the significant influence that this resource could have on the nation.

Lebanon is a corrupt nation and has been for decades. This has been partly due to the ethnic diversity where political parties have been associated with their religious affiliations instead of their political ideas and principles. Many political parties have been able to take advantage of this and build a public following based on fear and radical religious ideas. The major political groups have been able to split the spoils of the nation for decades among themselves at the expense of the best interest of the people. Any attempts for positive change are fought and resisted by most of the political parties. This will be discussed and further with the experiences of the Free Patriotic Movement and former Minister Charbel Nahas.

Norway was chosen as a good model to follow for a number of reasons. Norway has been able to develop into one of the strongest economic nations in the world because of strong political and economic planning. The nation has been stable regardless of the political party in charge and has been stable for decades. The success of Norway has been mentioned by many experts that have expressed their opinions about the Lebanese situation and many Lebanese politicians have also taken many points from the Norwegian situation.

One of the main purposes of this study was to show the dangers of poor political and economic planning. We can learn from the mistakes and success of others and apply them

to our own situations regardless of the nation that one might come from. The lessons from Nigeria, Kuwait, and Norway can be learned and evaluated by all nations in any field to lead to prosperity. Although, the natural resources industry is more specific to these cases, any field could endure many of the issues faced by the natural resource industry. Understanding that no one is immune to such problems and corruption is critical to set the path for a prosperous future for any nation.

Oil and gas should give Lebanon the opportunity to enter into an industrial economy. Will oil remain a resource curse or might it become a glorious blessing? Time and a good governing system in Lebanon should take advantage from the discovery of oil and make it a blessing for the nation.

# Chapter Two

## Literature Review

This chapter starts out with theories regarding oil and democracy and goes into focus on the state, civil society and the global community. It also presents previous research on economic inequality, resource endowments and government spending regarding the connection of oil and conflict.

### 2.1 Theories of oil and democracy

Despite being one of the world's most sought after commodities and having contributed to enormous wealth in many countries, oil is still considered to be the cause of poverty, conflict and poor development in many areas. The black gold has for many come to be seen as "the Devil's excrement" (Karl, 1999) because of the effects that oil discoveries often held for developing countries:

"In most [...] states, the gush of oil and gas wealth has had many malignant consequences. The funds have been used to keep entrenched elites in power, to postpone reform's, to underwrite the lavish lifestyle of the privileged, to commit in spending sprees on arms, to build showy and unnecessary projects, and to placate powerful special interests" (Ebel & Manon 2000).

The focus of the explanations for these processes has often been in regards to cultural explanatory factors, such as cultural and colonial heritage and religion (Ross, 2001).



Another assumption is that there are factors related to the offshore industry in itself that can hinder democratization. According to this perspective, the oil countries' progress towards authoritarian rule can be linked to how oil extraction affects factors in countries (Ross 2001, Karl 1999).

According to Charles (Karl, 1999), oil states are not like other states. Although they are often different in other respects, the oil countries are characterized by a number of recurring problems (Karl, 1999). The dependence on oil and the influx of money that the development of an oil industry brings has distinct negative effect on how the oil states institutions function. The cooperation between foreign investors and domestic policymakers tend to create excessive centralization of political power because the oil tends to be government owned (Karl, 1999). It also provides a strong network between actors in the public and private sectors, uneven development and the replacement of taxes by oil revenues (Karl, 1999). The influx of payments for oil means that the oil states do not need to relate to politics and economics like other states do (Karl, 1999). One consequence of this is that the economy and institutions become ineffective. Regimes in oil countries are investing in the creation of strong states, instead of political development and efficiency (Karl, 1999).

One important respect that oil states are different from other states in, is that they tend to be more authoritarian than other countries (Ross, 2001). Ross has, with statistical methods, succeeded in linking a number of mechanisms to how authoritarian oil states function. According to Ross, there are three causal mechanisms that may explain this relationship: the rentier effect, the repression effect and the modernization effect (Ross, 2001).

The rentier effect, which consists of three parts, is about states using revenue from oil sales to alleviate social pressures that can lead to demands for greater political participation (Ross, 2001). According to the taxation effect, states decrease or stop taxing people when it starts to earn enough money on the sale of oil. The expected effect is that the population's requirements for participation, accountability and representation decrease as a result of this. The idea is that if the people are not paying for the institutions, constructions and other fees within the society, then they can't claim any rights regarding it either (Ross, 2001). A second aspect of the rentier effect is the spending power, which is about oil states creating a client genomic relationship between the state and the population through targeting the use of the oil income to reduce dissatisfaction (Ross, 2001). According to Charles (1999), one consequence of this is that corruption is a major problem in the oil states, while internal conflicts regarding the use of revenues from the resource to be allocated cannot be resolved within state institutions (Karl, 1999). The third aspect of the rentier effect is the group formation effect, which means that the state prevents the appearance of independent social groups that may require political rights, for example, by deliberately depoliticizing the population (Ross, 2001). According to Karl (1999), an excessive reliance on the state tends to develop in parallel with the creation of the oil wealth, which according to her is hurting business.

The second casual mechanism is the repression effect, which is about oil wealth and authoritarian rule also linked to the creation of modern armies and security forces. A major reason for this spending is being able to keep their population in check if it starts making demands for political reform (Ross, 2001).

A third explanatory factor is linked to the modernization theory. According to this, a state becomes democratic if it, first, raises the level of education, which would be leading to a more organized, knowledgeable and demanding population and, secondly, increases professional specialization with a higher proportion of the population acting in the industrial and services sector, which is thought to lead to more autonomous functioning workforce. A consequence of modernization theory, which can affect oil states in the authoritarian direction, is that if increased wealth does not lead to these changes, it does not create the conditions for democratization (Ross, 2001).

## **2.2 Democratic Theory**

Oil States seems to be difficult cases to explain with several democratization theories. The revenue from oil has in many Middle Eastern countries given rise to many of the aspects that the modernization theory emphasizes, without being followed by democratization. The dependency school argues that unilateral dependence on a commodity increases vulnerability, but that does not seem to be true when the exported product is oil. Ross (2001) argues, moreover, that democracy theorists like to avoid oil-rich regions in their investigations. Thus, there is no theoretical explanation for democratization of the oil states of authoritarian governance. However, there are plenty of aspects to look at in context. Jean Grugel (2002) explains the democratic development in Southern Europe, Asia, Africa, Latin America and Eastern Europe based on the three concepts of state, civil society and globalization. The premise is that democratization is hampered by oil revenues that affect the aspects of these concepts that are assumed to be

necessary for a successful democratization process to follow. The concepts of state, civil society and globalization are thus intermediate variables to examine in this context.

### **2.2.1 State**

Grugel (2002) argues that democratization involves changes on the representative, functional and institutional plan, meaning that it is about who has the influence, state intervention, the establishment of elections, the party system and constitutional limitations on the exercise of power. Grugel (2002) is, however, unclear about what will get these changes to occur, although she mentions that personalism and corruption may seem prohibitive in the context (Grugel, 2002). Grugel (2002) thus uses the concept of the state as a basis for reasoning about the quality of democracy that arises.

Brooker (2000) give reasons about how authoritarian states are acting to maintain their power, and about what could eventually drive change. He argues that authoritarian regimes are trying to maintain legitimacy because it is an economically efficient way to control on, rather than through coercion. This legitimacy can be achieved through elections, ideology or performance (Brooker, 2000). Meanwhile, countries develop a strong control apparatus consisting of secret police and various sources of information extraction, in case legitimacy would not be enough (Brooker, 2000). One reason that authoritarian states are approaching democratization could be that they faced a "performance crisis" (Brooker, 2000). Other reasons may be an over-reliance on the possibility of winning a democratic election, or the suspicion that the battle is lost regardless. The military's support or lack of support is considered to be a possible contributing factor (Brooker, 2000). It can also be that a regime doesn't voluntarily move

somewhere, but is toppled from power instead. Thus, the state's strength may also be relevant to discuss. This may in particular be affected by the presence of other political actors, such as church, parliament, military and elite (Brooker, 2000). The question of transferring the power to whom must simply be taken into account and it becomes difficult to identify possible actors in a context where the actors are dominated by the state (Brooker, 2000). With absolute personalism, the military can become part of the leader's personal instrument, whereupon it becomes more difficult to imagine a coup. A popular uprising may instead be the only chance for a change of power (Brooker, 2000). With the state as an intermediate variable, it is interesting to investigate what the oil revenue may have an impact on in terms of this concept:

- 1) The state's legitimacy and ability to develop a strong control apparatus, as both of these factors can counteract that there would be a resistance to the regime.
- 2) The state's strength as measured by the ability to keep other players powerless or dependents against the rulers, since it eliminates both alternatives to the current regime as well as some threats to the regime .

### **2.2.2 Civil Society**

Variation within civil society has been regarded as able to explain the variable incidence of democracy in countries where other democratization theories have not resound (Karvonen, 1997). Therefore, civil society is an important factor to investigate in regards to the issue of oil and democratization. However, there is no consensus as to which groups are included in the concept or what functions they can play in society. One definition is that civil society is the space between the personal and the political sphere,

where voluntary organizations that are independent from the state and which are non-profit aim for its operations. Political parties and organizations could possibly be included, while movements designated as uncivil, such as Al -Qaeda for example, are excluded (Edwards, 2004). However, this definition has been criticized for only operating in the West. For example, it is deemed to be problematic in Muslim societies, which do not always distinguish between state and society (or political and religious), while religion cannot be seen as a voluntary institution in the same way as church activities in the West (Edwards, 2004). Another such complication is that criminal organizations are usually not included in the definition. Meanwhile, many movements are stamped as terrorist organizations by authoritarian regimes, even though they could be described as pro-democracy in a different context (Carapico, 1998). Grugel writes that the term "Civil Society... conceptually, primarily, refers to pro-democracy subordinated groups and social movements, rather than political parties" (Grugel, 2002).

The groups that Grugel (2002) chooses to investigate further are the women's movements, trade unions, social movements and indigenous movements. Grugel (2002) means that these should act with the state as an agent of change, while they will become an arena for political discussion and thus facilitate accountability. Through civil society, citizens can also learn civilian and democratic values, and possibly create social capital (Grugel, 2002). This is consistent with what Edwards (2004) argues that civil society is traditionally expected to meet. Edwards also writes that it may be an advantage to not pre- decide what is a good civil society, given that there is no consensus on what groups and movements that are producing the effects we are looking for (Edwards, 2004). As an intermediate variable, civil society can therefore mean that we can investigate the oil

revenue impact on social movements, organizations, including political parties, and other groups that may have a democratizing effect. Since this is regarding authoritarian states, it doesn't mean that civil society must act with the state but instead look to the other functions. By investigating whether there is an organized or unorganized discontent concerning the state, were aspects defined on state concept can be linked to the effects on the national level.

### **2.2.3 Globalization**

Regarding the globalization aspect, Grugel (2002) means that this may explain why people want democracy, while globalization itself cannot give rise to such, but actually runs the risk of creating an overestimated belief of what democracy should be able to accomplish (Grugel, 2002). Through the global communication networks, democracy have become a universal goal, with which it justifies a wide range of social and political activities, whether it is a proper name or not. Furthermore, it is through these networks a global culture can occur, which facilitates the spread of demands for human rights and the formation of transnational networks of influence. Democratization promotions are simply stimulated by globalization from below (Grugel, 2002).

Grugel is more questionable in the case of other global actors and factors that would be able to influence and believes in the principle that they could help as well as hinder, and that they rarely lead to any deeper form of democracy (Grugel, 2002). Grugel backs up her ideas on Whithead, who argues that democracy can be encouraged globally through: domino-/snowball-effect, control, conditionality, consensus or the spirit of the citizens. Only the latter two are thought to be sustainable pathways (Grugel, 2002). This is similar

to the effects that Grugel described. According to Brooker, the snowball / domino effect whereby democracy spread across countries may also be as important as it played a major role for the democratization of many East European countries (Brooker, 2000).

Conditionality can be said to be the manner in which international organizations, such as the International Monetary Fund and the World Bank, act, while the control has traditionally been linked to actions of great powers. With globalization as an intervening variable, it may be relevant to examine whether global actors and factors are influencing the ability of the oil states to be affected by the oil revenues. States, international institutions, transnational Non Governmental Organizations as well as global information networks would be considered. Their advocacy opportunity may be direct, by global players pushing for reforms, or indirect, through the transfer of value arising from the spreading of democratic ideals and a global culture. This is interesting as it allows researchers to investigate whether oil income also influences state external conditions, while the more indirect ways of influence can affect the population.

### **2.3 Economic inequality, resource endowments and government spending**

In Seymour Martin Lipset's article "Some Social Requisites of Democracy", published in 1959, a theory of a positive relationship between economic development and a democratic political system is presented (Lipset, 1959). This theory has become one of the most cited contributions in terms of research on the relationship between economic development and democracy, a field of research that has come to be one of the largest in comparative politics (Przeworski & Limongi, 1997).



After the Berlin Wall came down in 1989, a large number of countries in the world have undergone democratization, something that the researcher Renske Doorenspleet believes should be seen as a fourth wave of democratization (Doorenspleet, 2004). For the first time in history, the number of democratic regimes should formally exceed the number of non-democratic states (Linde & Ekman, 2006). Sometime during this period, the global economy enjoyed a boom that persisted to date, and many countries have experienced high economic growth since the late 1990s. Contrary to what Lipset's theory suggests, many of the world's richest countries today are still not democracies. How is it that many countries still aren't democratized despite this economic revival?

Previous quantitative research has indicated that the major achievements of democracy occurred in countries that have found themselves at an intermediate level of economic development. During the so-called third wave of democratization 1974 - 1990 middle-income countries were most likely to undergo a transition to democracy (Huntington, 1991). Muller's empirical results show that during the 1960s - and '70s a number of middle-income countries felt a democratic decline, particularly in a number of South American countries, but also in Greece, Turkey and Lebanon. Muller explains this as being due to an increase in economic inequality and that inequality negatively affects the level of democracy over time (Muller, 1995). Muller's multivariable analysis of structural causes of change in the level of democracy between 1965 and 1980 shows that inequality in income has a robust negative effect on democratization that can counteract the positive effects of economic development (Muller, 1995). Muller's conclusion is that economic inequality is incompatible with the development of a stable democratic system (Muller, 1995).

Badawi and Makdisi (2007) concluded in their analysis that oil dependency and armed conflicts are the largest individual explanations for the democracy deficit in the Arab world. Even outside the Arab world, oil can conceivably be a barrier to democracy. Michael L. Ross's quantitative analysis of 105 countries between 1971 and 1997 shows that there is indeed a connection between oil, gas and other types of mineral resources and low level of democracy, not only in the Arab world, but also elsewhere. Ross explains the causal mechanisms involved in the relationship between oil and democracy deficit to be the so-called rentier and repression effects.

Citizens of the oil-rich states may want democracy as much as citizens elsewhere, but resource wealth gives the government the opportunity to invest in a hefty repression apparatus in order to fight off popular protests, ethnic or regional conflicts, threats from the opposition or neighboring states. Ross's results do not support the hypothesis that an oil-based growth would inhibit democracy due to non-renewal, but that oil and other mineral resources actually constitutes an obstacle to democracy, both in the Middle East and elsewhere, and that the causal mechanisms consist of the rentier effect and the repression effect.

## **2.4 Oil and Conflict**

Oil is perhaps the world's most politically charged material. War is devastating to humans, the environment, and the entire states of existence. Yet conflicts are constantly occurring. That states end up in armed conflicts have multiple causes, including political or that someone is extremely profiting from it. There are several different causes of war and armed conflict. War can also be caused by self-interest, greed for power and

uncertainty about other states' intentions and military capabilities. However, there is no simple explanation. (Bina, 2013)

During the 1990s, the information and communication boom occurred and many thought that the natural resources no longer meant very much. But in the early 21<sup>st</sup> century, the bubble burst and the situation changed drastically. It has now become obvious that the new information and communication technology are by no means independent of natural resources, for example, the mobile phone runs on electricity and the manufacturing needs rare metals such as tantalum. Especially China but also India has witnessed a boom and opened up the international economy and this has accelerated the demand for natural resources in different parts of the world. The price of many commodities has risen and competition for control of strategic natural resources like oil has hardened. Future challenges regarding natural resources include lack of fresh water and the problems created by exceedances of the peaks in oil production. (Bina, 2013).

A busy searching for oil and gas is under way in different parts of the world today, but the findings have been modest. Russian, American, Chinese and Indian companies are competing for the discoveries made in different countries around the globe. The hunt for oil goes deeper and deeper in Arctic areas, threatening the local Indigenous culture. The control of the islands, oil and natural gas in the South China Sea has created conflicts between China, Vietnam, Malaysia, Indonesia and the Philippines. Even within countries, exploitation of oil deposits led to conflicts. (Bina, 2013)

Today's challenge is to determine when a possible peak of world oil production is reached. The major international oil companies, major oil producing countries, the U.S.

government, international organizations such as OPEC (the oil-producing countries' organization) and the IEA (the western countries' energy organization) are optimists. They expect that the peak will occur sometime 2020-2030. The critical oil geological organization ASPO takes a different view, saying that the peak has already been reached or was reached in 2006-2010. The question of the peak in oil production is critical. The price of oil will inevitably rise as demand continues to increase while the easily accessible oil is reduced, which increases the costs of oil production. Since traffic and transport, and not to mention the agricultural production, for example, are largely conducted with rising oil prices far-reaching consequences will affect all people in the world. It is also evident that the conflicts in the states could increase. (Bina, 2013).

## **2.5 The Oil Curse**

The oil -rich developing countries having problems with social development is a trend that has been observed over a sufficiently long period of time and in enough different states. States that don't have large mineral resources (including oil) had a four times faster growth than the mineral rich states between the years 1970 to 1993, and studies show that the more mineral-dependent a state is, the poorer the growth has been. (Karl, 2004) This phenomenon is called "mineral curse" or the "oil curse", as it is often that mineral in question. The oil curse briefly involves that oil supply attracts corruption and causes conflicts between local elites who want to take advantage of the resource ( Pegg, 2003).

But it is not oil's very existence that causes this negative growth curve and other problems, but it has a causal link with the problems an oil state is facing. Only 4 % of the

world's oil reserves are in the industrialized countries and the remaining percent are in developing countries, which mean that the risk of the oil curse to become reality is increasing. Other emerging problems oil has causal effects on is the oil industry in the state that beats out other industries to some extent, by the oil industry pushing up a state's exchange rate, which means that other industries become less competitive in the international market. This, in turn, means that the state becomes even more dependent on the oil industry. (Karl, 2004) The social structures in an oil state are also affected by the oil industry. The oil industry has a huge turnover of money and technical resources and the oil companies are thus having a very dominant social force in the state. This complicates the development of local industries. Although the foreign oil companies form some sort of partnership with local groups, they still have a poorer chance of developing due to the oil industries huge economic presence in the state and their technological superiority to the local industries (Karl, 2004)

When talking about the oil curse it is important to mention the most important aspect, the relationship between oil resources and civil war. Also in this respect, correlation with the oil is of the negative kind and states dependent on oil exports are at greater risk of civil war than countries without oil dependence. Civil war in the oil states tend to be longer and be more intense than in states without oil (Karl, 2004). The oil curse also includes issues that are not directly linked to the state's growth, but rather is a problem for the state's welfare. Oil States often have high child mortality rates, inadequate health care system, an unusually high percentage of poverty and low education (Karl, 2004).

There are obviously those who have opposed to the concept of the oil curse and these critics believe that oil brings with it opportunities for the state and that the oil industry

generates economic growth, which automatically means higher living standards for state residents ( Pegg, 2003).

## **2.6 The Curse and Conflicts**

Collier and Hoeffler (2005) argue that their research on the causes of conflict is taking social, political, economic and geographical aspects into account. The conclusions drawn between the economic factors and the conflict is that the risk of conflict increases with lower income and growth levels. An excessive reliance on natural resources can also be a contributing factor (Collier & Hoeffler, 2005). Further, Collier and Hoeffler touch on Weinstein's research on resources and rebel recruitment, saying that "where resources permit, opportunistic rebel leaders crowd out ideological leaders" (2005). In countries with great access to natural resources, states tend to be corrupt, which invites to rebel activities - both opportunistic and ideological. (Collier, Hoeffler, 2005).

The political elite in corrupt resource-rich countries can come to plunder the country's resource rents rather than investing in the welfare sector. The plundering of rents is in itself a strong contributing factor to that conflicts can occur, and Collier and Hoeffler highlights four risk factors for plundering to occur:

- When the regime only has a short, limited time in power.
- When the elite ethnic group holds minority position.
- As the state assets earned by resource rents is much higher compared to society's income. This reinforces the claim that the resource curse is getting more force in low-

income countries with large natural resources, where the relative differences between natural resource revenues and the country's other income is very large.

- When democratic electoral processes most will be about "protective policies" (patronage politics). This is most prevalent in countries where resource rents are so high that they cover the state's protective and at the same time is not dependent on taxes from the people, which is something that undermines the country's control on power (Collier & Hoeffler, 2005).

So, what can the natural resource rich states do to avoid or quell conflicts over natural resources? When it comes to the oil conflict the rebel groups are almost always secessionist (Collier & Hoeffler, 2005), and right separatist rebel groups that are created in these areas often mean that the natural resources should be in their possession and that the government is abusing the financial assets that the resource has yielded. If the government wishes to avoid possible conflicts, it can interconnect resource revenues with welfare initiatives and thus answer the criticism that the proceeds are used irresponsibly. Another way to avoid conflicts is to have a transparency permeate production chain and thus show that profits from the exploitation are brought into the budget they are meant to be in. This can then be followed up by transparency even in the expenditure side of the budget that shows how the natural resources are actually reflected in society (Collier & Hoeffler, 2005).

This literature review will serve as a foundation of knowledge that will be used to investigate further through research and comparative perspectives. The following chapter

explains how to assess this knowledge into the actual research and what academic method that will be used to meet the aim of this study.



# Chapter Three

## Methodology

In order to give a reasonable prediction concerning the fact whether the natural resources in Lebanon are a blessing or a curse, it would be beneficial to study the situation in other nations with similar characteristics to Lebanon. Although every nation and region has its own issues which might not apply elsewhere, choosing nations with similar backgrounds and issues can be helpful nonetheless. Because of the unique issues that Lebanon faces and the demographic characteristics that make up the nation, the two nations chosen were Nigeria and Kuwait due to the similarities that these nations share with Lebanon.

### 3.1 Kuwait

Kuwait is located on the Persian Gulf. According to the Library of Congress, it is an Arab nation with a population of around 4 million people. The country has one of the large oil reserves estimated to be around 9% of the total world supply. Also, Kuwait is one of the most densely populated OPEC countries. The nation is a constitutional monarchy with a parliament that is elected by the people and a monarchy that is controlled by the Al-Sabah family. The ultimate power of the nation is in the hands of the monarchy as they numerous powers that allow them to have complete control over the nation politically and economically. This includes their ability to dissolve parliament, appoint a prime minister and suspend the constitution if they deemed it necessary. One significant statistic is that only %60 of the population is Kuwaiti citizens while the rest of the population is made up

of expats who are there for business and educational reasons. The key issue to focus when comparing to Lebanon is that around 60% to 70% of the population are Sunni Muslims, while the remaining 30% to 40% are Shia Muslims.

Another issue to focus on is that there is a constant struggle between the parliament and the monarchy due to the fact that both parties see themselves as being the true representative of the Kuwaiti people. This conflict throughout the years has repressed the ability of the government to perform necessary economic and political reforms that many in the nation (both among the public and politicians) are calling for. There have been numerous elections where many of the opposition groups have gained numerous seats but at times have not been able to reflect their electoral successes in the political scene. These are some of the issues that will be mentioned when dealing with the Lebanese case.

Kuwait depends heavily on oil for its economy. According to the International Monetary Fund, the oil industry makes up around 43% of the GDP of the country. Although the oil and natural gas industry is significant, Kuwait has not allowed it to become the only significant aspect of the economy. Other significant economic resources that the nation depends on include sectors such as agriculture, trading and tourism. Throughout its history Kuwait has been affected by the international prices set for oil. Higher prices have led to greater economic stability while lower prices have weakened the economy. The effect of oil prices has decreased throughout the years as it has increased its other economic resources but the effects still exist nonetheless.

After reviewing the economic and political situation in Kuwait, it can be deduced that the oil industry in Kuwait has been a blessing for the nation. The reason for this assumption

can be seen for a number of critical reasons. One issue to consider is that there is economic stability in Kuwait despite the fact that more needs to be done. The Kuwaiti currency (the dinar) is the highest valued currency in the world. Kuwait also has considerable influence politically in a number of Arab countries. This influence has been developed because of its location in the Persian Gulf area and being near influential nations in the area such as Iran and Saudi Arabia while also neighboring Iraq as well.

The two main religions in Kuwait are Shia Islam and Sunni Islam. This has given significant influence to the Sunni sect at the expense of the Shias. The tensions that have been increasing between the two are ever since the U.S. invasion of Iraq in 2003 has been seen in Kuwait although it is to a lesser degree than other nations in the region (Bahrain, Iraq, Lebanon, Syria, etc). Many Shia officials have been denouncing the laws created that seemed to be aimed at hurting the Shias and minimizing their influence in the nation. Saleh Ashour, a Shia member of the Kuwaiti Parliament, has protested many decisions made by the Sunni dominated government and monarchy that he believes targets Shias. Ashour believes that the government is indirectly encouraging sectarianism which would allow the ruling family to stay in power for fear of a so- called Shia revolt that many Sunni Parliament members have stated on numerous occasions. Tensions between different sects are a common theme in the region.

Kuwait is currently one of the wealthiest regions in the world and this has been largely due to the natural resources that the nation has and its ability to produce and export it relatively well. Despite the different demographics in the country and the religious tensions, there doesn't seem to be any negative effect on the oil industry. This could be partly because the ruling family has control over the industry and has been able to keep

the religious tensions away from the industry. Oil has transformed Kuwait to a strong economic nation. It seems that the oil industry has been a blessing for Kuwait even though more could be done to create a better situation for the Kuwaiti people.

### **3.2 Nigeria**

Nigeria is a Republic nation located on the West African coast and is the continent's largest producer of oil according to the U.S. energy Information Administration.

According to the Library of Congress, Nigeria is the most populated country in Africa with over 174 million people. Despite the fact that there are hundreds of ethnic groups in the country, there are two main religious groups in the nation with each making up around half of the population. Sunni Muslims, who live in the Northern and Western regions of the country and the Christians who live mostly in the southern and central parts of the country. The oil industry constitutes more than 98% of the export earnings and is over 80% of the government revenues. There are other sectors that are significant in the economy as well which includes financial services and a telecommunications market which, according to DeRouen and Bellamy is one of the fastest growing ones in the world. However, the ultimate bulk of the economy depends on the oil industry and fluctuations in demand have a negative impact on the economy especially when it comes to the federal budget.

Nigeria had a history of dictatorships which technically made it easier for the government to control the industry regardless of whether public support for government plans was present or not. The presence of a military government made controlling the industry easier as there would be less opposition to any plans that the government would be setting.

According to a BBC report, government control of the industry continues to be strong despite public dissatisfaction.

Nigeria is struggling with persistent clashes between Muslims and Christians, in addition to the country's vast oil resources creating extensive environmental and violence problems. Violent clashes between Muslims and Christians in Nigeria have caused hundreds of deaths on both sides. But the conflict is about far more than religion. Fighting for land, ethnicity and the battle for oil have fueled poverty all together. In the northern part of the country Muslims are in majority, while Christians dominate the south. The two religious groups represent approximately equal parts of Nigeria's population and have been in conflict for a very long time. The religious tensions intensified between 1999 and 2000 when several states voted to impose Islamic law (Shari'a). The government put pressure on all sides to stop this and decided to ban Sharia law in February 2000. Despite this, Sharia is still practiced in individual states and this has led to constant confrontation and violent clashes between the government and various Muslim groups. The conflict has also repeatedly led to the massacre of civilians on both sides (Peel, 2011).

The country is the largest oil producer in sub-Saharan Africa and the seventh largest in the world. Oil reserves are mostly off the coast of the Niger Delta and it is also in this area of interests has led to violence and armed conflict. The problem is mainly that most of the money from the oil goes to the core, corrupt governments and foreign oil companies. Many Nigerians believe that a greater share of profits should accrue to the country's population. Over the last few years, armed groups have taken up arms to release

the Niger Delta from the rest of Nigeria and they use both the kidnapping of foreign oil workers and sabotage of installations as means in the conflict (Peel, 2011).

There have long been forces in southeastern Nigeria who wished to detach themselves from the rest of the country and between 1967 and 1970, the region claimed itself as independent and took the name Biafra. Nigeria never accepted the declaration of independence and Biafra was forced back as part of the country after a war that cost hundreds of thousands of lives (Peel, 2011).

Another conflict that was started by oil are the protests from the Ogoni people, among other, that respond to the pollution from the oil installations that lead to their immediate environment being destroyed. Nigerian authorities do not like the Ogoni peoples' objections and in 1995, the leading activists from this group of people were executed, including the writer and environmental activist Ken Saro-Wiwa. This led to widespread international reactions but Olusegun Obasanjo, President of Nigeria of the time, struck hard down against all opposition. (Peel, 2011)

Nigerian democracy activists have repeatedly asked the international community to boycott the country's oil industry in order to influence government revenues and force a change. The appeal has not been followed up. As a result, attacks on oil facilities in the Niger Delta escalated in the beginning of the 21<sup>st</sup> century, and the Movement for Liberation of Niger Delta (MEND) has been particularly active. In 2005, the group attacked a Shell oil platform and blew it up and the year after they blew up an oil pipeline in the Delta. After a period of inactivity, the group has made itself known again with several campaigns in the summer of 2008. Delta became an area in turmoil and oil

production quickly fell by more than a fifth. The government worked on a conference for anyone with interests in the area, but since the guerrillas wouldn't participate, it was doubtful whether there would be a final solution to the problems. In May 2009, the Government set a major military offensive in motion in the Niger Delta. The goal of this was to put an end to attacks on oil stations in the area. Several thousands of people fled their homes. MEND responded by destroying even more oil pipelines. The president tried a new tactic and promised amnesty to those who laid down their arms during the period of June to October. In addition, the government released Henry Okah, a leader of MEND, out of jail. As a thank you, MEND went on a two-month truce and the country's oil production rose from 1.2 to 1.7 million barrels a day. In early October, 8000 rebels in the Niger Delta laid down their arms (Peel, 2011).

Despite the fact that oil extraction has been going on for over 50 years in the country, many people have seen any economic benefit from the extraction in their daily lives. According to a BBC report, government officials are reaping most of the profits from the oil industry and are the majority shareholders. The government has not helped improve the infrastructure of the nation and has ignored the other sectors of the economy. One significant aspect is the fact that the oil industry has indirectly led to the decline of the agricultural industry which was once a booming sector in the economy. According to Ake, the government negligence and the negative externality that the oil industry had on the environment both helped diminish the once vital industry. According to Levy, these kinds of facts become even more relevant when knowing that almost 60% of the Nigerian workforce is in the agricultural sector. Having a large sector of the population in an unsupported and diminishing sector of the economy has led to severe economic and

social problems for a large portion of the Nigerian people who have yet to reap the benefits from the oil industry.

Despite the religious differences among the population, this has not been seen as a major factor in the management of the oil industry. Although right wing groups have emerged from both religions and there is an increasing number of attacks (especially on the Christians), this has not been a factor in deciding how the industry would be managed. The unofficial agreement is that the Presidency is rotated between Muslim and Christian candidates have had a positive effect on the relationship between the two sides, even though there have been serious attacks and acts of violence.

It can be seen that the oil industry in Nigeria is influential and booming which has had a positive effect in terms of revenue and prestige for the African nation. However, poor planning and inadequate government spending on key sectors is minimizing the potential positive effect that this natural resource might have on the Nigerian people and the Nigerian economy. The fact that the industry has been operating for over 50 years and that the people of Nigeria have yet to see more positive results shows that the oil industry has been a curse for the people of Nigeria instead of a blessing. Again, this is largely to poor management and the allocation of government funds than on the production and exporting of the commodity.

### **3.3 Lebanon**

After reviewing and analyzing the situation in both Nigeria and Kuwait, the attention can now be focused on Lebanon. Lebanon is a country now at a crossroads when it comes to its economic future and potential. The discovery of natural resources on its coast has



provided a unique opportunity for the nation to expand beyond its traditional economic structure into a system that incorporates this new economic factor. Lebanon is a unique country in terms of the region it is located in and the differences that exist in the population. The situation of Lebanon makes it unique where many basic laws and concepts concerning the extraction of natural resources.

Lebanon is located in the Middle East, bordered by Syria on the east and north, Israel by the south and the Mediterranean Sea in the west. The history of petroleum in Lebanon dates back to 1926 and was followed by many others in following years. Historically, the nation has depended on the service industry and funds from expatriates. This industry included bank services, tourism and delivery services. This is all expected to change very soon because of the fact that natural resources were discovered along the coast of the nation. This will not only change the financial resources that will be entering the nation but also changing the economic and financial system. The discovery has opened a huge discussion about the direction that the economy should be heading into and the manner in which these funds should be used.

The Lebanese economy depends on a number of significant factors. One of the main economic activities in the nation is the service industry which consists of tourism and banking services. Another significant issue to consider is that there is a large number of expats all around the world who return to their home nation constantly. The Lebanese banking system also offers services such as bank secrecy which is not available in other nations around the world and not just in the Middle East. The expat populations also help the economic cycle, which is used in the economic system for investments. Trading is

also a large part of the Lebanese economy as well as its location and flexible laws encourage corporations and individuals to trade constantly.

The Lebanese population is divided between Muslims and Christians (a Muslim majority exists). The Christians are, for the most part, followers of the Maronite faith which is part of the Catholic Church. The Muslims are divided between Shias and Sunnis with other smaller faiths such as Druze, Alawites, etc. The Lebanese system has been managed in a manner that divides the political power in all areas of government among the major religions. This has included the Shias, the Sunnis and the Christians. Although the positions are divided, the division is not an equal one. The President is a Maronite Christian, the Speaker of the Parliament (a Shia) and the Prime Minister (a Sunni). This situation makes Lebanon unique from the Nigerian and the Kuwaiti situation as such arrangements are non-existent.

The fact that the Lebanese has been based on a service based economy is not a healthy factor for the country. Although the country has offered attractive banking services to individuals and corporations while also having an attractive and significant tourist attractions. That they have been affected by security issues and instability concerns. An economy can't be effective if there are security concerns but this is even more sensitive when it relates to nations with service based economies since these economies depend more on outside funds and influence. This influence can be decreased once an area becomes unstable. Lebanon and the Middle East have been experiencing instability for decades. Lebanon in particular has been through so much in its short history. The Civil War (1975-1990) devastated the economy and ruined the infrastructure of the nation. It

took years and billions of dollars in debt to restore some of the pre-war conditions to certain areas of the country (Beirut in particular).

At the end of the civil war in the early 1990's, the Lebanese system was changed drastically where the Christian President lost significant power to the Sunni Prime Minister. At this time, Rafic Hariri, began to emerge in Lebanese politics and was eventually appointed as the new Prime Minister. Many resources of the state were controlled by a political and economic class which raised the level of public debt and did little to support the infrastructure or the economic situation in most of the country. Corruption was encouraged and reforms were at an all-time low.

The assassination of Hariri in a car bomb in 2005 changed the political scene in the nation. Many political groups that were against the status quo were able to reenter Lebanese politics after years of exile. Many of these politicians were against the economic system and vowed to introduce change. Eventually two main groups emerged from this event. The March 8<sup>th</sup> alliance and the 14<sup>th</sup> March alliance, both groups contained political parties from the Hariri era and also contained new political groups as well. These political groups included former Lebanese General Michel Aoun who returned to the nation after an almost 15 year exile in France. He achieved success in the 2005 Parliamentary elections but remained in the opposition because of his initial opposition to both groups. He eventually sided with the 8<sup>th</sup> March alliance out of the belief that this political alliance would suit his political and economic views. Knowing the political situation is critical to understanding the mentality of the different political groups in the nation and the manner in which critical issues such as those related to the oil industry are determined.

Both political groups have been in a constant struggle for power ever since Hariri was assassinated in 2005. This has affected the ability of Lebanon to develop a strong natural resource industry. The political system depends on having different parts of the government approving of certain laws and procedures. Laws and procedures need to be approved by the Ministry Council which is made up of the different political parties that join together to form a government. The Prime Minister (Sunni), Finance Minister (who is currently a Shia) and the President (Maronite Christian) have to sign these laws for them to be applicable and legalized. All the laws dealing with the natural resource industry have to be signed by the Energy Minister as well (who is currently a Christian).

After a number of laws and regulations were passed to move forward with plans to take advantage of the newly discovered natural resources, the momentum has slowed significantly especially when compared to the other nations in the area that are dealing with natural resources in the Mediterranean sea (Cyprus, Israel and Syria). The bidding procedure for different corporations who desire to extract the natural resources has been postponed numerous times for a number of years for purely political reasons. Michel Aoun and the 8<sup>th</sup> March alliance have been handling the resource issue for a number of years now. This has been seen with the meetings that the country has held with.

Another issue to consider is the neighboring countries that Lebanon borders and their attitude towards the natural resources in the area. Syria is not an issue since there is no territorial dispute over the areas containing the natural resources. The main countries that might have an issue with any Lebanese extraction are Israel and Cyprus. Lebanon and Israel are officially at war while no agreements have been made with Cyprus over the areas that intersect with the three nations. The Israeli and Cyprus governments have

already developed an agreement between them and are now in the process of extracting the natural resources. Lebanon, on the other hand, has not yet set an official area with the Cyprus government. Political pressure in Lebanon has minimized the role of the Energy and Foreign ministers of Lebanon who should have the authority and power from the Ministry Council to develop some sort of agreement. These ministries have been held by March 8<sup>th</sup> and Aoun ministers for a number of years now which might explain why they have not been given the authority they require to complete such agreements.

According to Chakrani and Issa, many countries in the Middle East region have been developing numerous lucrative deals with foreign companies to extract the natural resources located in the Mediterranean Sea. In 2001, Turkey, Israel and Cyprus have all signed deals with numerous western companies to extract the natural resources. Turkey signed an agreement with Shell in November Of 2011 shortly after Cyprus struck a deal with the U.S. energy firm Noble. This was done despite the fact that Turkey does not officially recognize Cyprus as an independent nation. This is a similar situation that exists between Lebanon and Israel. The Lebanese government did start the contracting process by announcing its intentions and there was positive reaction by different corporations around the world despite the security concerns in the region. This was seen when up to 85 different companies attended forums organized by the Lebanese Ministry of Energy for petroleum exploration. The problem is mainly that the process is being slowed down by political bickering and internal divisions on who should be in charge of the energy file.

According to the U.S. Geological Survey, the amount of natural resources that have estimated to exist in the area has been 122 trillion cubic feet of natural gas and 1.7 billion barrels of oil in the Levant Basin Province. This is the largest discovery of natural

resources in over a decade. This explains the rush and enthusiasm seen by many nations in the area to speed the process and take advantage of the wealth. Lebanon has been falling behind despite the fact that Lebanon is an oil dependent nation with spending on oil and oil related derivatives to be around \$6 billion dollars a year which is equivalent to almost 14% of the gross national product. It would make a lot of economic sense for the Lebanese government to take advantage of this resource; however, it seems that politics is more important to some than economic improvement. The latest bidding scheduled date was postponed again in the summer of 2014 and with the current political situation; it seems unlikely that any new laws or procedures will be passed by the government unless one of the two political sides concedes to the other.

A key factor of the Lebanese oil struggle is also related to the political and economic mentality that has been present in the Lebanese government since the end of the civil war in the early 1990's and the emergence of Rafic Hariri and his economic ideology.

According to Neal and Tansey, once in power, he established encouraged an economic system that would weaken the Lebanese Lira, raised the level of public debt 540% from 1992 to 1999 and by the end of the decade, the Lebanese economy was in a disastrous situation. Corruption levels were high and the main aspects of the economy were divided among the different Lebanese political parties at the time.

After Hariri's assassination in 2005, a new political battle was being waged between those who supported the old economic policies and those who wanted to reform the entire system. Aoun spearheaded the reform movement with calls for changes in the Lebanese system and the mentality in the economic system. This was seen when in 2011, Aoun and his political alliance (the 8<sup>th</sup> March alliance) took over the government with some other

political parties formally associated with Hariri and ousting the 14<sup>th</sup> March alliance which contained most of the former associates of Rafic Hariri such as former Finance Minister Fouad Siniora and former Prime Minister Saad Hariri. However, many in the new government opposed reforming the system since many had no interest in changing the status quo. This became more obvious when, according to the Daily Star, Labor Minister Charbel Nahas resigned in February 2012 because he found no support for his new ideas concerning his reforms for the labor union system and the minimum wage system among other policies.

To make matters even worse, the political divide is partly a reflection of sectarian divide as well. The Shia's mainly compose the 8<sup>th</sup> March Alliance while the majority of Sunni Muslims compose the 14<sup>th</sup> March coalition. Conflicts and disagreements among both alliances have been interpreted at times as being a representation of the sectarian rift between the two religious groups. The threat of sectarianism has increased significantly since the start of the Syrian Crisis in early 2011 where the Shia's have sided with the Syrian government and the majority of Sunni's have sided with the Syrian opposition forces. As the conflict escalated so did the involvement of the different Lebanese factions in the conflict as well. This represents the tensions that exist between the Muslims and the Christians in Nigeria and the Shia's and Sunni's in Kuwait with the difference being that for Kuwait, the Sunni ruling party had a tight grip on the critical affairs of the state unlike the Lebanese situation and to a lesser degree the Nigerian situation which has benefited from the presence of a strong central government (even if it was in the form of a dictatorship). The increased tensions between the two religions have made dealing with

the industry more difficult and sensitive than it might be in a normal situation where only economic issues were taken into account.

The entire situation explained above relates to the natural resource industry. This is because the manner in which this critical resource will be managed and utilized will factor in whether this discovery will benefit or hurt the Lebanese economy and thus its people. The ability of the Kuwaiti government to take control of the industry (regardless of the lack of democratic reforms) has shown that a united government can get the job done and reap the benefits of such a resource despite the fact that the population is divided among sectarian lines which negatively affects the manner in which the people treat one another and their relationship with the government. The Nigerian situation shows that poor management and resource allocations along with some religious violence could have a negative effect on the ability of a nation to take advantage of such resources. In such situations, the natural resources could develop into a curse for a country.

The choice of studying three different countries in two different regions is motivating as the three different cases create a natural variation and thus contribute to the extent to which the theory can be said to be universal (Teorell, 2001). Many natural resource rich countries are often cursed by corruption and many governance problems. Whether natural resources are a curse or a blessing depends on each country's specific circumstances.

This could be possibly used for future analysis to other nations that are experiencing such situations and new developments when it comes to natural resources. The study can also provide a possible guideline for nations to follow to avoid any problems that they might be facing and possible steps that these nations could use to escape the current problems and issues that they are facing.



Oil and gas should give the opportunity to let Lebanon into an industrial economy. The theory of the resource curse concludes that it highly exists. Hopefully in Lebanon discoveries of oil will be a blessing to the nation. The natural resource should not be interpreted as rule that resource rich countries are always “doomed to failure.” Examining the oil prospects of Lebanon and how Lebanon can avoid the resource curse. Corruption should be decreased and the Lebanese policy makers must learn from previous cases to avoid the natural resource curse. It requires examining future trends in production and consumption of oil in divided societies; regarding the failures and possible development that will help to improve the standards of rich oil countries, transferring the idea of curse to blessing. Success stories in a number of countries have existed, that shows that there might be hope for the Lebanese economy. National unity, strong defense strategy, and domestic security will make Lebanon a strong united country against any future problems. Therefore, greater unity among different groups is a key to success.

The curse of natural resources raises the issue of natural resources wealth, mainly oil, might influence political institutions as well as economics. Natural resources are frequently linked with high levels of corruption. Nigeria is perhaps the most cited examples. According to Bhattacharyya and Hodler, “many findings imply that resource-rich countries have a tendency to be corrupt. Nevertheless, history shows that countries discovering natural resources after they have established well-functioning democratic institutions tend to handle the scourge of corruption much better”. Norway is a good example. History is considered an important factor that might be utilized to have a thought about the future.

To consolidate findings, the next section of the paper will highlight the opinions and views of a number of political and economic experts (from different sectarian backgrounds) on the future of the natural resource industry in Lebanon and whether or not they believe that it can have a positive or negative role in the Lebanese economy.

# Chapter Four

## Findings and Analysis

### 4.1 Nigeria and Kuwait Recap

After seeing the different facts and issues related to the Nigerian and Kuwaiti situations, some conclusions can be made concerning whether both countries were able to benefit from the natural resources that each country had and whether the natural resources in the countries were a curse or a blessing for each nation. Based on the information gathered from each nation, different conclusions can be deducted here.

When it comes to the Nigerian situation, it can be seen that the natural resources in the nation were a curse for the country instead of a blessing even though the natural resources and the wealth and power it brought was needed by the nation of Nigeria and its people who are still paying for this curse to this day. The increased religious tension in the nations between the Christians and the Muslims, the environmental damage in terms of landscape and animal life, the lack of improved infrastructure and economic situation of the people and economy all showed that the country did not take full advantage of these resources. There are a number of reasons as to why it was considered a curse which includes the mismanagement of the industry by the government, religious differences between the population and a lack of centralized governance.

When it comes to the Kuwaiti situation, it can be seen that the natural resources in the nation were a blessing for the nation and that the government and its people were able to

benefit from the resources and were able to turn Kuwait into a successful economic state. The relatively stable and strong government, the presence of a strong infrastructure and economic situation and the strong influence of Kuwait on the regional and international scene are all signs that show this success. There are a number of reasons that helped ensure the success of the industry which include the strong presence of the national government and security forces, the lack of serious religious tensions among the Sunni's and the Shia's and the successful management of the sector by the corporations and government officials. One negative note to make is the lack of a strong democratic system where the key decisions are kept in the hands of the ruling Sabah family and not the people.

#### **4.2 Political Landscape in Lebanon**

After giving a brief analysis of the Kuwaiti and Nigerian situation, deducing the effect of natural resources on each nation and comparing them with the Lebanese situation, it would be beneficial to get the opinions of economic, social and political experts as to what they expect from the Lebanese situation and the future of the Lebanese economic, political and social situation. This was to see whether the experts believed that Lebanon was going to follow the path of Nigeria or Kuwait based on the political and economic developments in the nation. The experts sought out were Lebanese economists, current and former ministers, current and former members of parliament (MP), political analysts and government officials who currently reside in Lebanon and relate to the Lebanese situation on a number of different levels.

The different political parties in the nation have said much about the natural gas and oil sector and have given their ideas concerning the best ways that the industry should be utilized. As mentioned earlier, the country is divided into a number of political coalitions and groups. The major two in the country were the 14<sup>th</sup> of March and the 8<sup>th</sup> of March Coalitions. The 8<sup>th</sup> of March Coalition is made up of the Free Patriotic Movement, Hezbollah, Amal Movement and a number of other smaller groups, parties, organizations, intellectuals and politicians. Their opinions towards the sector were expressed by a number of MP's and ministers.

#### **4.2.1 8<sup>th</sup> of March Movement and FPM**

Hezbollah parliament member and Agricultural minister Hussein Hajj Hassan in the Mikati government (Hassan is currently the Industrial Minister in the Salam government) called for approving the necessary regulations and laws that would speed the process and open the sector to foreign corporations who showed interest in investing and extracting these critical natural resources. As a member of the government and parliament, he stated that his political party would support any laws that would help improve the sector, open it up to foreign investments and allow the cash flow to enter the nation. Hassan also stated that he believed that the successful management of the sector could significantly improve the economic, social, political and security situation of the nation. However, he didn't specify any plans or details as to how the funds would be utilized, how the investments would be allocated, expectations or other similar critical aspects of any economic plan. Hezbollah Security General, Sayed Hassan Nasrallah, had stated his support of the idea of extraction and stated that his political party would do whatever it could to speed the

process and ensure that the resources would be protected by any foreign attacks (he was referring towards the threat that Israel posed on the country).

Amal Movement parliament member and Health Minister Ali Hassan Khalil in the Mikati government (Khalil is currently the Finance Minister in the Salam Government) has also released similar comments to Hassan concerning the natural resource sector. This was also supported by comments by the President of the Amal Movement and the Speaker of Parliament, Nabih Berri. Berri also saw that the natural gas and oil could change the nation and help the country escape the weak economic status that the nation has been facing ever since the end of the civil war in the early 1990's. Berri's comments showed that he was optimistic about the sector and the potential that it could provide to the country. Again, there was no talk about specific investment or the direction that the country would be heading into if the sector were to be successful. It is also worth noting that both Amal Movement and Hezbollah are the two largest Shia political parties and two of the strongest political and social parties in the 8<sup>th</sup> of March coalition and in the country in general. They were both close allies and have shown a significant history of electoral and governmental cooperation.

Free Patriotic Movement Energy Minister from 2009 to 2014, under the Hariri and Mikati governments, Gebran Bassil, had been one of the most active politicians and officials who supported legislation and regulation that would speed up the process which would allow the extraction of the resources. He issued numerous statements about how he saw a lack of initiative towards the sector by his allies and adversaries in the government. He traveled to Cyprus to negotiate the territorial dispute between the two countries, opened the path towards the bidding of different corporations, organized the scientific and

geographic research team and results and divided the territories into different sectors. Unlike his other allies in the 8<sup>th</sup> of March Coalition, the Free Patriotic Movement was more active and vocal in their opinions and thoughts concerning the oil and natural gas sector. The Energy Ministry is currently held by Arthur Nazarian whose most recent decision towards the sector has been to postpone the deadline to submit Lebanon's first licensing round because of the failure of the government to pass decrees that would define the necessary protocols needed for the industry to be successful.

#### **4.2.2 14<sup>th</sup> of March Movement:**

On the other side of the political spectrum in Lebanon, there exists the 14<sup>th</sup> of March Movement which includes the Future Movement, the Lebanese forces, the Phalange party and a number of smaller parties, intellectuals and politicians. The most influential member of the coalition has been the Future movement headed by Former Prime Minister Saad Hariri. Member of Parliament Ahmad Fatfat is a member of the Future Movement and has spoken of his support of the extraction of natural resources in the country. However, he has stated that his political party won't support legislation and decrees if the Ministry is held by the Free Patriotic Movement or any of its allies. This opinion was repeated and expressed by a number of other Future Movement officials. The other political parties in the 14<sup>th</sup> of March coalition have followed suit with the statements made by the Future Movement in showing support with the idea of the oil and natural gas sector but have not released any other significant statements relating to the process or what they expect from the sector in the future. Former Prime Minister and current Member of Parliament Fouad Siniora had travelled to Cyprus to deal and negotiate the disputes that existed between the two countries. This was done before 2009 when the 14<sup>th</sup>

of March Coalition were in full control of the government when the 8<sup>th</sup> of March Minster's had resigned and their supporters had gone to the streets in large protests for over a year until Siniora resigned in 2008 and a new government was formed.

#### **4.3 Economic, Social and Political Experts**

After viewing and analyzing some of the opinions and thoughts of the major political groups and politicians in Lebanon, it can be seen that most of the positions were given towards control of the industry and manner of running it but there was no real plans set for the spending policy and how the government should take advantage of the funds which are estimated to be up to \$600 billion dollars. The country was never used to seeing such funds before yet there was no plan set to improve the economy, the infrastructure or any real social

According to Al-Amin, the Free Patriotic Movement (headed by former General Michel Aoun) seemed to have been showing the strongest activity towards the sector. There was a number of reasons as to why Aoun and his team (ministers and parliament members) were some of the vocal ones who called for swift action on the oil and natural gas sector. One reason was that unlike his allies, he had stronger competition within the Christian community. The Free Patriotic Movement was the largest Christian political group in the country but faced competition from their rivals the Lebanese Forces, the Phalange Party and a number of other local politicians. To ensure that they remained popular in the Christian community, they had to show that they are able to be productive in the sector and prove that they are able to deal with an issue as important and critical as the natural resource industry. Their success would increase their support among their communities



and support their argument that they were able to govern as opposed to the other political groups who have governed for decades but failed to create a strong and stable economy. Another issue is that among the other political groups in the 8<sup>th</sup> of March coalition, they were the ones who were new in the political scene and had more emphasis on governance rather than other regional issues.

Nicholas Sarkis is an economic and political expert who has been observing the Lebanese situation for years. According to his finding and analysis, he sees that there is currently no reason to see why Lebanon should be considered a country that encourages investment in the oil and natural gas sector. The assessment made by Sarkis may seem harsh to some especially considering the fact that numerous politicians have been calling for the implementation of decrees and laws that would open Lebanon to the oil and natural industry. Sarkis believes that this issue is and is going to remain the single most important social economic issue for the nation. However, the manner in which the politicians are treating it shows a lack of concern or indifference towards the issue and the potential that it could bring. His biggest concern was the secrecy involving the sector and how many different aspects and details of the different laws and decrees being announced are kept hidden from the public as if to hide some details that might benefit some politicians at the expense of the public.

Based on draft executive decrees that were released to the public, Sarkis criticizes a number of important and critical details that highlight the level of mismanagement and lack of detailed planning. One critical issue is the concept of royalties that the Lebanese government would be receiving from the different foreign corporations operating in the oil and natural gas sectors. According to the Sarkis, the current drafts state royalties that

are between 5% to 12% for oil and 4% for natural gas. Sarkis mentions that the worldwide average is currently around 12.5% which means that Lebanon would receive a significantly lower amount than most countries in the world receive and would risk losing billions of dollars over long term contracts.

Sarkis also entertains the idea of having a national corporation which would have their own set blocks to work in after a few years of relying solely on foreign corporations. The foreign companies who would win the bids would have to agree to hire Lebanese engineers and experts who would learn the trade and then work for a Lebanese national company in a manner similar to the Norwegian model that will be described in a coming section. It is important for the Lebanese to allow for the development of such a corporation similar to the manner in which the Petroleum Administrative Board was developed but with less emphasis on political influence towards a more merit and technocrat based leadership and management.

This is similar to the Norwegian situation where the national company has significant influence and power. The national company operates and leases 80% of the oil and gas production in the country. Another interesting fact is that the Norwegian government owns 67% of the shares of the national company. Both these percentages show that the national company has a lot of leverage in the industry and the benefits that the government could reap. Past experiences show that the previous Lebanese governments have conspired among their members to create deals that split the benefits of different plans into the different political parties and sects. Some well-known examples include the Council for the South and the Fund for the Displaced; however, there are some recent

incidences that show this negative side of Lebanese politics and its influence in the economy.

Political analysis Bassam Kuntar mentions how the waste management industry is currently being redistricted in the Beirut area in a manner that will split the different distribution areas to companies that have ties to different members of the current government. In other words, the companies dealing with waste management will each have ties to one of the sects of the Lebanese government. One company will be owned by Shite investors having close ties with Hezbollah and Amal Movement, one will be owned by Sunni investors having close ties with the Future Movement, one will be owned by Druze investors having close ties with Walid Junbulat and one will be owned by Christian investors having close ties to the Free Patriotic Movement. This agreement has all the main sects satisfied in this particular sector of the economy and it can be expected that a similar agreement might be developed when dealing with the gas and oil production industry where different companies could be developed and distributed in a manner that corresponds with the major sects and their political affiliations.

Based on the short legal and management history of the oil and natural gas sector, Sarkis is not very optimistic about the future of this critical sector of the economy. He believes that if the current draft agreements are approved then the Lebanese people will be stuck with agreements that will not have their best interests at hand. The current agreements show a lack of concern for the best interest of the Lebanese people and that the politicians are willing to seek the best interests of foreign corporations at the expense of the people. This is a strong indicator of poor mismanagement of the sector and does not promote confidence in the current political elite's ability to manage the sector wisely. According

to Sarkis, a better future will require more work, better laws and stronger regulations before a more positive outcome can be expected.

Charbel Nahas was the former Telecommunications and Labor Minister under two Lebanese governments headed by Saad Hariri and Najib Mikati respectively. He resigned both times; the first because of the resignation of his political alliance from the government and the formation of a new government under Mikati. The second resignation came under different circumstances. According to Zaraket (2014), Nahas has spent his time since 2009 trying to fight the political and economic system the country has been facing for decades and although he did not often succeed, his actions have opened public debate concerning the different issues he has fought for which included minimum wage rights, labor unions, tax laws, and other significant social and economic issues. The background information was brought up to highlight the unique experience of Nahas and to give his perspective a unique significance that may not be found with other experts who have not had much experience working in the government and dealing directly with the political players in the nation.

Nahas doesn't trust the current political and economic system present in the government. Nahas believes that the major political leaders and officials only care about their own interests and desires and are willing to risk everything in order to keep their interests and increase them as much as they can. He believes that officials are willing to use religious tension as a weapon to ensure their positions and their influence even though there are many risks involved with using such a tactic for any reason. He makes his judgments based on the current progress of the issue in the government, the laws being proposed by a number of politicians and his own experience dealing with these political parties and

leaders while he was a minister. He remains optimistic that change will occur and the Lebanese will eventually benefit from this resource but he is worried about the unnecessary time lags.

When it comes to the Lebanese situation, Nahas believes that the current system favors the ruling parties even though they have done a decent job in minimizing ethnic and religious tensions with the current Petroleum Administrative Board. The board is divided among the main different religious and political groups thus shielding them from any potential criticism. All of the members of the board have been voted by the government but are representative of the different political parties and groups. Each member gets to head the board for one year and the other members are rotated into the presidency of the board based on the alphabetical order of their last names. An example of the combination between the religious and political backgrounds includes the Druze member and first president of the board, Assem Abou Ibrahim whose appointment was approved by sanctioned by the strongest Druze leaders in the country, Walid Junbelat and Talal Erselan. The same applies for the other members of the board as well. The board has mainly dealt with workshops and attending regional conferences relating to the oil and gas industry. At least one member of the board has been attending these events with no real work other than that approved from the government through the energy ministry which supervises the work of the board.

Nahas believes that the current governmental unity allows for the commission to work in relative harmony. However, he believes that any political crisis will negatively affect the work of the commission and their ability to draft and submit suggestions to the energy ministry which in turn shows the proposal to the entire government which votes on the

suggestions. Nahas also notes how the current board is powerless without the approval of the Energy Minister and the government. The power of the board depends on the government which is divided among the different Lebanese sects and political parties. Therefore, the work and power of the board depends heavily on the harmony and work being done in the government which is currently very low. The work of the board has mostly been mostly of the protocol type at the moment.

This is one criticism that is also mentioned by energy expert Fuad Jawad who criticizes the current system set up which allows the political parties to have a strong and firm control over the sector. According to Jawad, the sector shouldn't be politicized and more power should be handled to boards created based on skill, education and expertise instead of political connections. These boards should have the power to create their own legislation without the influence of the different political parties. Jawad also believes that there should be an oil and gas minister who would exist for entertainment purposes only. The ministry would send the recommendations to the prime minister to be signed, meet with foreign delegates, and represent the industry in the public. Jawad also agrees with Sarkis in that there should be a national corporation owned by the government but managed by technocrats. This would come at a later stage and would not eliminate the need for foreign corporations. Jawad believes that there should a number of blocks given to the Lebanese company and the rest would be left for foreign companies to bid on. Jawad also believes that the government should begin preparing Lebanese for the industry by developing schools where students would be encouraged to enter the field and have college level knowledge in the industry.

One main issue that has not been mentioned by many politicians and even a number of experts is the manner in which the funds should be spent. Some experts like Sami Atallah mentions that it will be critical for Lebanon to develop a method to use their funds. Atallah even goes and discusses the issue of the resource curse where many basic sectors of the economy are ruined because of the focus and success of the natural resources found. The laws passed by the parliament in 2010 state that the revenues should be deposited into a sovereign wealth fund (SWF). According to Atallah, this is a good first step but more needs to be done. The law does not mention how these funds will be spent and that this will be done in future laws.

Two possible models are mentioned, the Norwegian model and the Alaskan model although the Norwegian model for Lebanon although this might be hard to accomplish initially because of the economic and social problems that Lebanon is currently facing. The Alaskan model is mentioned because although the Norwegian model is superior, there are some parts of the Alaskan model that are noteworthy. In Alaska, only about 25% of the portion of the oil and gas revenues are deposited in the in the Permanent Fund, which is currently almost worth \$40 billion, while the dividends are paid to the people of Alaska. There are no other investments or plans done with the investment profits of the fund. The portions of the profits that are not placed in the fund are spent in the Alaskan budget. The 25% does not include the income or property taxes that the oil and gas companies pay. These funds go into the state budget. The idea of paying some of the dividends to the Lebanese people and steering any taxes towards the Lebanese budget might be considered for Lebanon in the beginning.

Atallah believes that although the SWF is needed and necessary, the history of the manner in which Lebanon has dealt with and managed such funds is not encouraging. He even mentions some examples such as the Council for the South and the Fund for the Displaced (both were developed soon after the end of the civil war in the early 1990's and were managed by the political parties of Nabih Berri and Walid Junbulat respectively). Atallah describes the Norwegian experience and how the nation has been able to grow. Atallah advises any plans to have a number of critical principles and concepts which include developing clear investment plans, creating regulations that will define how the fund is managed and spent, defining the role of government and regulatory agencies, and ensuring accountability and transparency. This is just the beginning according to Atallah and there will further need from economists to interact the oil funds with the needs of the country and the public finance sector.

Other experts such as Jawad and Abou-Mosleh have called for following certain models that currently exist (the Norwegian model in particular) but they also agree that there has been no real discussion over the manner in which the funds should be managed and spent. Part of this might be due to the fact that Lebanon is in considerable debt with poor infrastructure and a weak government. Most of the concerns, understandably, have been focused on setting the path for the eventual implementation of the laws and regulations that would open the oil and natural gas sector in the nation.

#### **4.4 Norwegian Situation (The Ideal Model?)**

Norway is a nation that has had a successful history in managing the oil and natural gas industry and has been able to earn billions of dollars annually and spend it wisely in the



economy. Analyzing some key aspects of the Norwegian approach to the sector might be wise for nations who are new to the industry like Lebanon. In fact, according to Sarkis, Lebanese experts assigned to draft out the petroleum contracts have looked at the Norwegian model and have tried applying some concepts in the draft.

One issue to take into consideration is the manner in which Norway get their revenues from the corporations. Many countries in the world adopt some sort of royalty system where different percentages are assigned to different corporations that are producing the products. Norway doesn't take any royalties from the corporations but chooses instead to heavily tax the corporations instead which includes a 28% tax on profits (which is the same applied to any business in the country) and a unique 50% profit tax that is only applied on profits from offshore oil and gas production. This means that corporations pay up to 78% in taxes to the government. When dealing with the onshore Northern regions of the country (Snohvit) that needed economic stimulus's, the government made sure that corporations would get some tax breaks that would encourage investment and thus job growth in those regions. The government also has equity in a number of publicly traded corporations and leases.

When Lebanese experts reviewed the Norwegian model, they liked the idea of a 0% royalty system and seem encouraged to apply it. However, these experts ignored the high tax rate placed on the corporations and don't have any plans or ideas set to make up for the low royalty rate unlike Norway have done through their high tax for offshore production and tax incentives for areas in the nation that are in need of economic attention. The region of Snohvit in Norway resembles in a number of ways the Beqaa region in Eastern Lebanon which has been historically abandoned by the government and

is a poor region but recent studies have shown that there might be some sources of natural gas and/or oil in the area.

Another issue is the bidding process itself. Norway has adopted a system where the bids are awarded to corporations who have the best bid and not necessary the highest one. This is unique as many countries have including the United States and Canada have their bids set on the concept of the having the highest bidder winning in the end. The bids set up by the Norwegian government includes criteria based on experience, management skills, the financial ability to fulfill commitments and further develop, plans set for future investments and projects, etc. It is important for the government to find corporations who are able to get results and success to the country and not those only interested in making a profit. The fact that Norway looks for what is best instead of what is the highest shows their commitment to the people and that the top priority for the government is to look out for the best interests of the people and not to simply find the easiest ways to make money.

Another interesting issue seen in the Norwegian model is the fact that unlike other nations where the losing bids has no right to know why they lost; the Norwegian government is more open to these corporations and explains to them why they lost the bid. Since the bidding process depends on criteria more than price, this is not simply the case of the loser having a lower bidding amount. There is much more involved in the bidding process and the corporations have the right to know why they lost and what they would have to take care of for the future. The government does this to encourage corporations to try harder the next time to win. This is not seen in other nation such as the United States and Canada where the losing party has no right to challenge the decision made or find out the reasons why they lost.

One final issue that should be considered is the manner in which the funds received from the oil and natural gas sector is spent in the country. All the money earned from the sector is saved in a Pension fund and only 4% of the value of the fund is taken out every year to help balance the budget. The government pays for most of the services that it has through taxes on residents and businesses. The highest personal income tax is at 50% and there is a Value Added Tax (VAT) set at 25% on almost all goods and services. Norway also has a gasoline tax rate that is one of the highest set rates in the world. The government uses the tax money that they receive from the businesses and citizens to pay for services such as universal health care and free college education for all of its citizens. The government did not abolish any taxes that were present and made sure that the citizens continue to pay taxes. The government did not want to rely on their natural resources and sought for traditional methods to continue to ensure the best services for their citizens while at the same time developing a safety net.

According to many experts, Lebanon is able to benefit from the revenues and developments which could the nation and steer the people towards a future that has never been expected in the history of the country. However, the possibility of failure is eminent and if the country continues in the current political and economic system then it is unlikely that the new discovery will be a blessing. It could be a curse that would make things better for some but worse for the majority of the people and the future of the nation itself. This will all depend on the manner in which the political parties decide to deal with the issue and whether they will focus on what is best for the people instead of what is in their best political interests. Many of the experts are waiting to see what is happening but with the entire region in turmoil, many expect politics and war to

overcome common sense and economic principles for the short time. changes have shown there could be positive (Kuwait) or negative outcomes (Nigeria).

As this paper has shown, there are many experts who believe that the direction that Lebanon will take will depend in the end on the policies and decisions made in the country by the political powers in the next critical few years as there is much uncertainty about the fate of the natural resources industry. Many experts seem to hope that certain models are adopted (Norwegian model) and others are studied at the very least (Alaskan model) because of the success that such models have had in the industry although lessons can be learned from all of the experiences that have been discussed in this paper.

# Chapter Five

## Conclusion

In the end, the new discoveries have opened the door for a new future in the country. The problem is that many don't seem to know whether or not the future will be a positive or a negative one. The experiences of other nations that have gone through similar radical

After studying and analyzing the situation that Lebanon is facing, it will be important to return back to the beginning and to the thesis that we had developed: Is the oil and natural gas discovery in Lebanon a curse or a blessing? The reason that this thesis was sought out in the first place is because Lebanon should become a new member of the international oil and gas community. This is an important step for any country that would be facing such an issue but with Lebanon, the situation is more dire and critical. The political situation in the country (8<sup>th</sup> March vs. 14<sup>th</sup> March), the instability in the nearby and neighboring countries (Syria, Egypt, etc), corruption, and the religious tension in the country and region (Shia vs. Sunni, Muslim vs. Christian, etc) are just some of the issues that Lebanon has to face that not many other countries have had to deal with in the past. Developing a vision for the future of this sector that could change the landscape of the country forever is crucial for this small Mediterranean country. Estimating what might happen and what could go wrong would help focus on the positive aspects and where Lebanon should be focusing their efforts on. This study could also be an example on how other nations with internal and external issues should deal with their resources if they

were to discover any in the future and they were to be a small economic nation like Lebanon.

There are a number of issues that the Lebanese government should take into account when dealing with the natural gas and oil industry. It has been shown after reviewing the Nigerian and Kuwait situation that governance is critical to the success of the natural resource industry. The Lebanese political parties have to organize the industry in a manner that will keep it independent from political, religious and social tensions.

Although the Kuwait situation did show that this can be achieved with different religious groups, it is important that this policy doesn't come at the expense of democratic values and personal freedom. Chaos in such an industry could increase tensions among the people of the country and lead to few positive results.

The politicians should support policy that takes into account the failures and the success of other nations. The governance issue is heavily related to issues such as corruption, poor implantation, unequal distribution of the oil revenues, non-diversification of the economy, and environmental risk. These are some of the negative results that could arise because of poor governance and are issues that should be seriously considered by the government. Although some of the negative results may not be in complete government hands, such as volatile oil prices and environmental damage, the government still has the power to minimize these effects through plans and initiatives such as a national environmental policy and developing future economic income through sources and industries unrelated to the oil industry.

Governance also includes preventing corruption. There are a number of ways that this can be attained but there has to be national consensus towards this concept. This includes developing plans that include public extraction contracts, monitor and disclose extraction figures, ratify international standards or treaties, and the implementation of anti-bribery codes (implantations of the regulations in the home countries of the oil companies that are operating in Lebanon).

One other issue that the government needs to deal with is the maritime border disputes. Border disputes are seen with many nations around the world, however, the issue becomes even more sensitive and critical when dealing with borders that include such rich natural resources such as those found between Lebanon, Cyprus and Israel. Maritime boundary disputes will prevent Lebanon from exploring part of its oil and gas resources. Lebanon and Israel are at war with one another. This means that there is no way that direct negotiations can be developed and no joint development agreements could be reached. The only option available is to depend on third party mediation such as the United Nations or a neutral nation. The situation with Cyprus is different and easier to work with. This could be easily done through legal frame work and developing a maritime border with Cyprus. However, the Lebanese have postponed such talks with the Cyprus government and officials while Israel and Cyprus have already begun negotiations to settle any disputes between the two that might come at the expense of Lebanon (there is no war situation between Cyprus and Israel). The Lebanese government has to quickly negotiate with the Cyprus government to ensure that it doesn't lose any valuable resources.

After reviewing the Lebanese situation and what has happened in other areas, there are some issues that the Lebanese government should seriously consider if it wants to reap the benefits from such an incredible discovery. One issue exists in the current political system set up which allows the political parties to have a strong and firm control over the sector. The sector shouldn't be politicized and more power should be handled to the experts based on their skill, education and expertise instead of political connections and ties. The different boards that should be developed will have the power to create their own legislation without the influence of the different political parties. This will keep the committees independent and allow for them to focus on the issue at hand instead of some politician who would care more about the prestige that he might receive instead what is in the best interests of the people.

Another issue to consider is that there should be a national oil corporation that would be owned by the government but managed by technocrats. This is similar to the idea of allowing the experts to manage the market. The idea of a national oil company should be similar to the model adopted in Norway where the system set there is one of the best in the world and is envied by many other oil producing nations. Although the idea should come at a later stage and would not eliminate the need for foreign corporations, it is still an issue that the government should be planning for. Out of the blocks that are awarded for extracting, some of those should be set for future use by the Lebanese government. This way the Lebanese would have some space to work with their company and at the same time, they would be able to still benefit from the presence of foreign companies and experts. The rest of the blocks that Lebanon would not use would be left for foreign companies to bid on. In order to develop a national corporation that is run by the



Lebanese, there should also be government sponsored programs in the colleges and university that would encourage the students to enter the natural resource field and have a college level knowledge in the industry meaning that they would be able to. Eventually run the corporations that the Lebanese should be working on developing at the same time.

Because this was a comparative study and would give estimations about where Lebanon was heading into, the focus was on expert opinion and on professional articles and reviews that analyzed the situation. The results received would be used to compare previous events with Lebanon and see which direction Lebanon was taking. The expert opinions were used because they were economic, social and political experts who lived in the country and knew best about the status of the nation and how the surrounding events would affect the future of this critical industry in the nation. These experts also provided their opinion on what was wrong and what they believed should be done to send Lebanon on the right track. Despite going through dozens of articles and expert opinions, the answer is still not clear about what will happen to the Lebanese resource sector even though much was said about what should be done and what should be stopped.

According to many experts, Lebanon is able to benefit from the revenues and developments which could the nation and steer the people towards a future that has never been expected in the history of the country. However, the possibility of failure is eminent and if the country continues in the current political and economic system then it is unlikely that the new discovery will be a blessing. It could be a curse that would make things better for some but worse for the majority of the people and the future of the nation itself. According Jeremy Arbid (2014), the LPA has repeatedly indicated that the crown jewel is not the lucrative extraction of resources, but rather encouraging

manufacturing, industrial localization and SME integration. This will all depend on the manner in which the political parties decide to deal with the issue and whether they will focus on what is best for the people instead of what is in their best political interests.

The paper does have some limitations as it is not a definite science on what is happening. There is no real formula that will tell what is going to happen and that is one of the problems of this study. There is also the unpredictable nature of the region and what could happen both inside and outside of the nation. Such instability makes it hard for any Lebanese government, no matter how strong and united it might be, to develop laws and regulations for the industry. Other significant issues include the fact that no two countries are alike and it doesn't seem feasible to compare two separate countries with one another and expect the solutions in one to solve the problems in the other.

Many of the experts are waiting to see what is happening but with the entire region in turmoil, many expect politics and war to overcome common sense and economic principles for the short time. The region is going under much instability and Lebanon is in the center of it. This is mainly due to the fact that Lebanon is in a state of war with some neighbors (Israel), has neighbors with internal conflict (Syria), and is in the center of a power struggle between regional (Saudi Arabia and Iran) and International powers (Russia and the United States). This situation had affected the ability of policymakers to make decisions that serve the best interests of the people because of foreign pressure.

The young generation will now have to wait and see what will be decided before it can celebrate the new oil and gas discoveries that have excited a large of the population. Fears of becoming a failure are still high and possible and the possibility of success is

still high and possible as well. The people must depend on themselves to ensure that the politicians will take their concerns seriously and will work towards helping the people achieve some sort of economic social and political stability in the country. There results will all depend on the path that the natural resource field will be taking. Until then, all people can do is wait and hope for the best if they are not willing to take real action to change the status quo.

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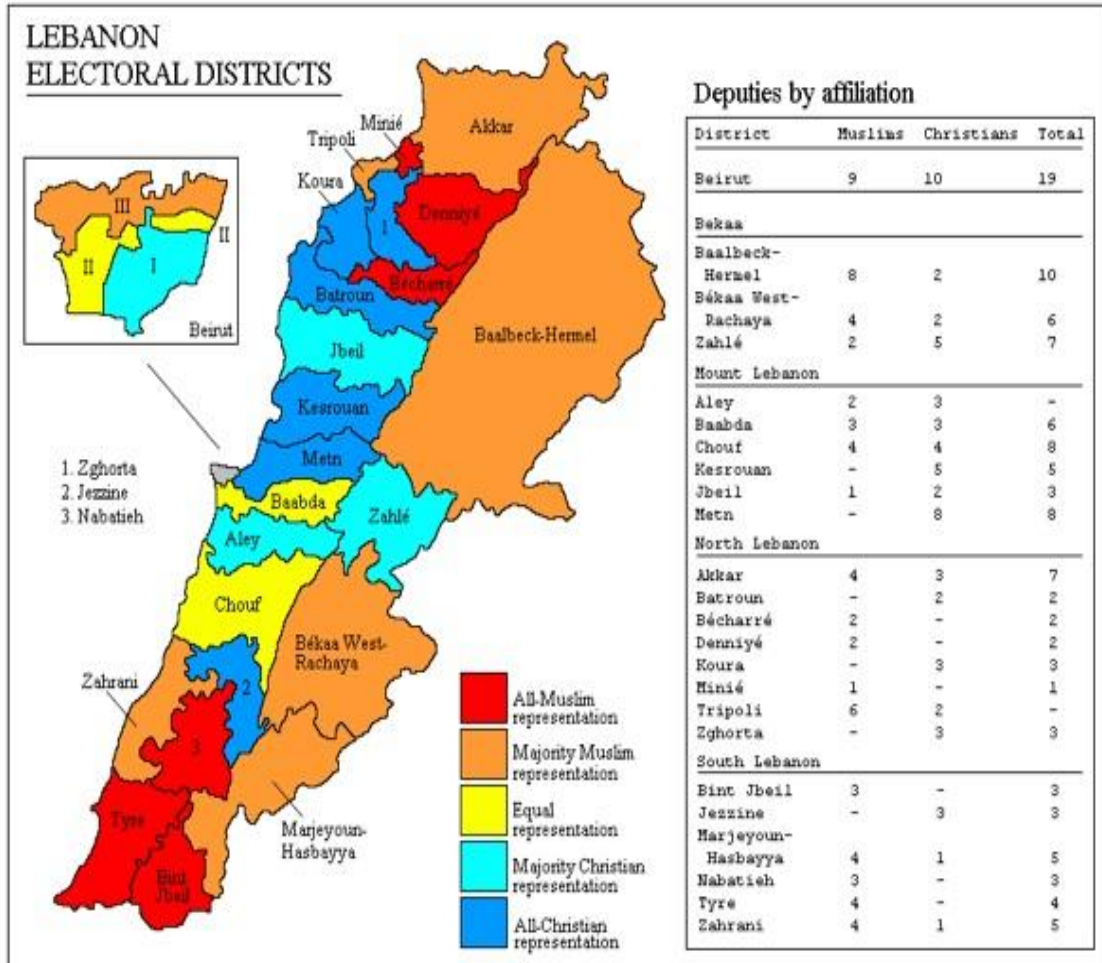
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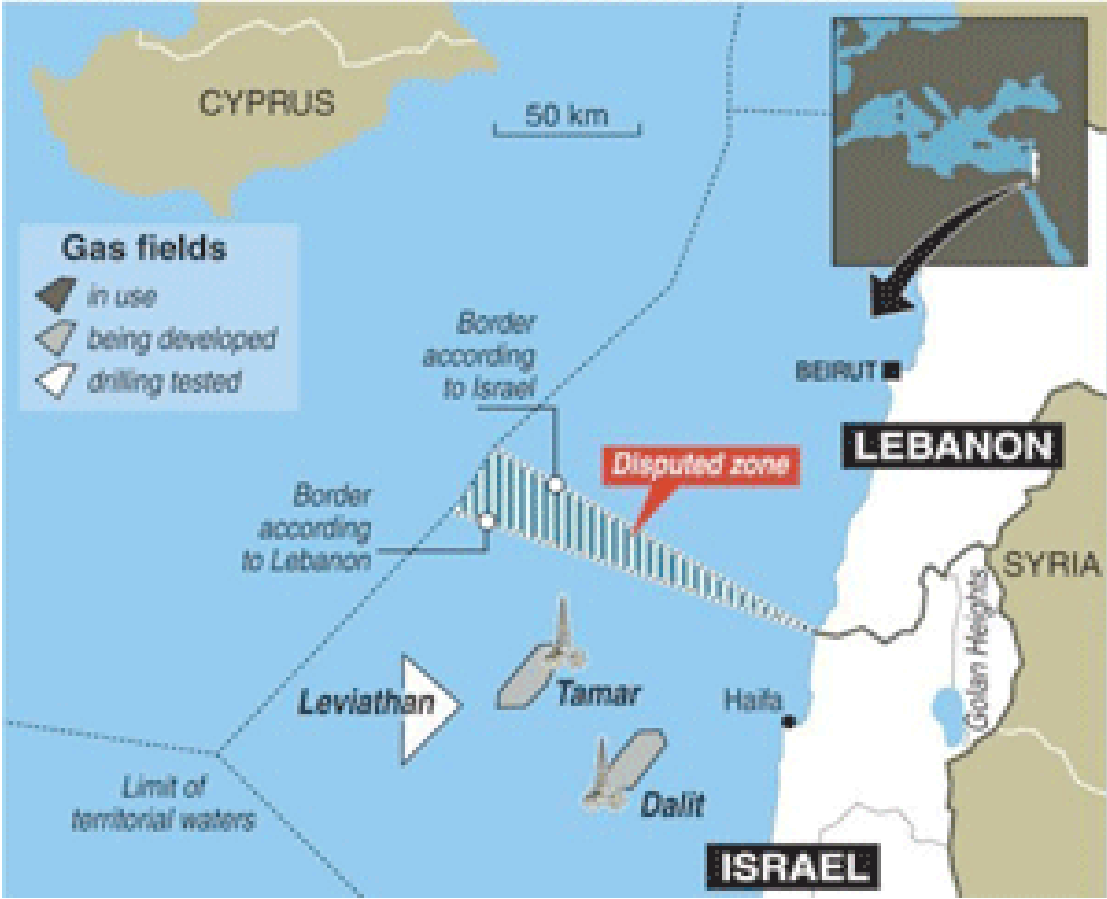
# Appendices



Muslim and Christian affiliation in Lebanon

# Maritime boundary feud

Fears of conflict as Israel and Lebanon row over area believed rich in gas

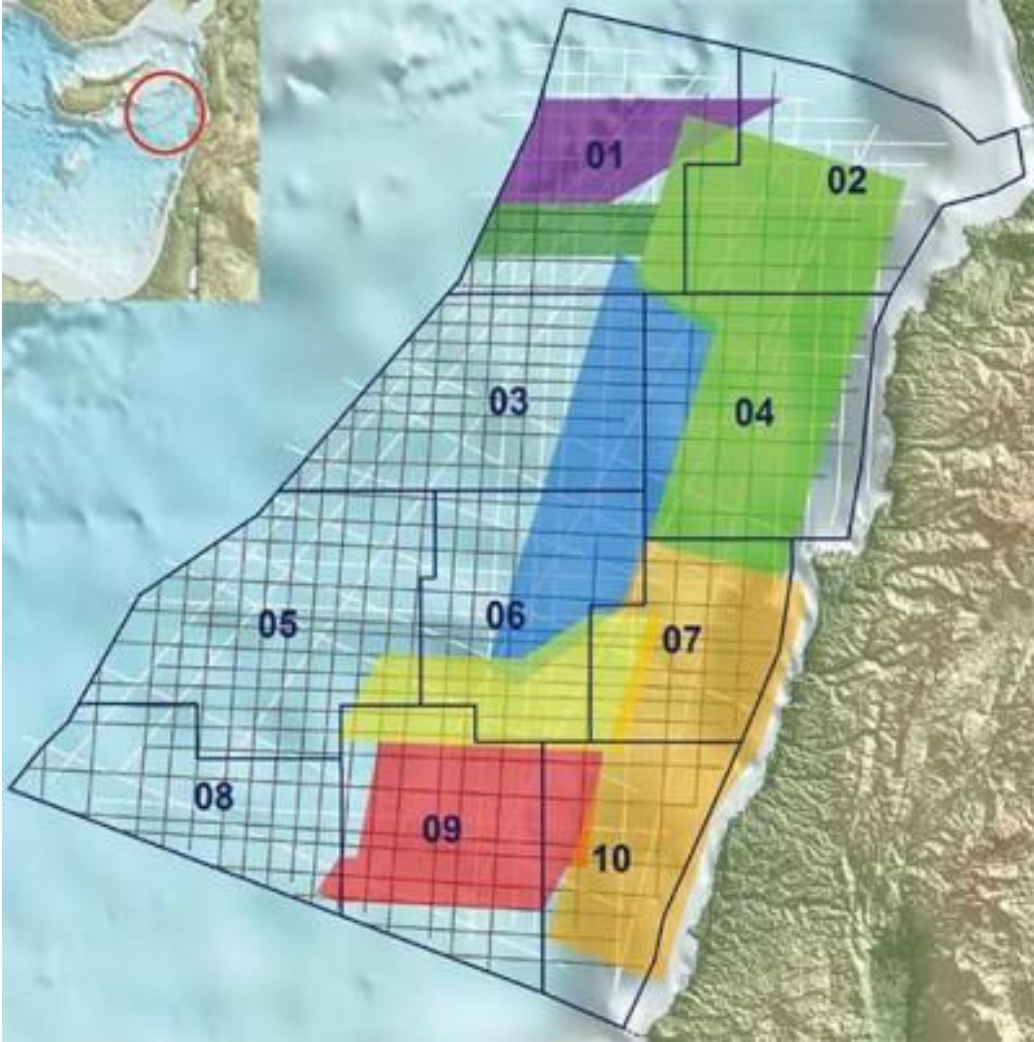


Maritime Boundary Dispute between Lebanon and Israel

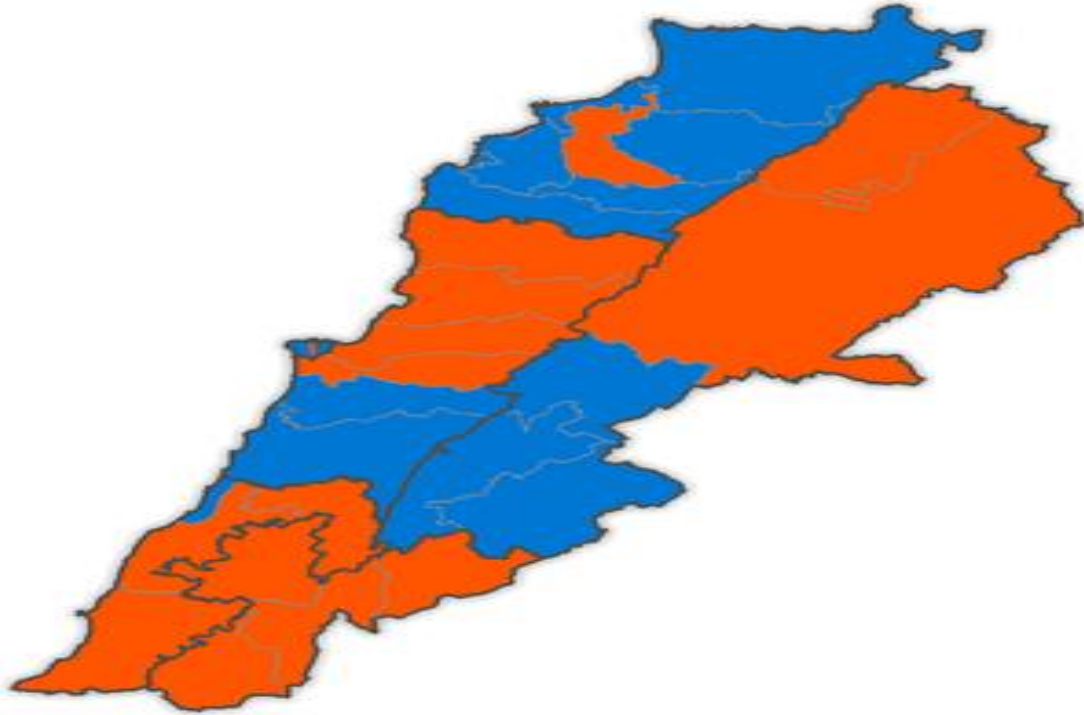


*USGS estimates potential 122 TCF undiscovered gas reserves in Levant Basin*

Assessment Area of Gas and Oil Fields between Lebanon, Cyprus and Israel



Lebanese Sections in Oil and Gas Fields



Political Distribution in Lebanon: 14<sup>th</sup> March in Blue, 8<sup>th</sup> March in Orange