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Mitigating the Resource Curse for Extractive Industry: The Case of Lebanon by I. Salamey

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Mitigating the Resource Curse for Extractive Industry: The Case of Lebanon

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Abstract

The discovery of gas and oil in the Eastern Mediterranean Basin awaits serious resolutions to the political challenges confronting the process of exploration and extraction. On one hand, the lack of maritime boundary delimitation, with the potential discovery of shared deposits, and the absence of mediation channels may exacerbate regional volatility. On the other hand, deficiency in the managing capacities of extractive resources, which coincides with deep political divisions and absent local consensus regarding the national distribution of revenues and benefits, represents another cause for potential intra-national contentions. This paper describes the regional and domestic challenges and possible repercussions in the prospective development of extractive industry, taking Lebanon as a case study. It entertains various revolutionary scenarios that stimulate cooperative and collective strategies within conflict mitigation frameworks.

Offshore Gas and Oil Discoveries in the Levant

A recent US Global Survey estimates that the Mediterranean Levant Basin-- encompassing land in Israel, the West Bank, and Lebanon -- contains 122 trillion cubic feet of recoverable natural gas, and 1.5 billion barrels of recoverable oil.² Israel has found the biggest field under the Basin to date (30 tcf) and has begun offshore extraction.³ In Cyprus, a field estimated at 7 tcf has been discovered. Seismic surveys (3D) conducted off the southern coast of Lebanon in 2012 by the British firm Spectrum estimated that it contains more than 25 trillion cubic feet of gas.⁴ Beicip Franlab published a resource base assessment report estimating 440-675 million barrels of oil in

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² U.S. Department of the Interior, U.S. Geological Survey (World Petroleum Resources Project), Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province, Eastern Mediterranean, available at <http://pubs.usgs.gov/fs/2010/3014/pdf/FS10-3014.pdf>. (March, 2013).

³ Noble Energy and two Israeli companies, Delek Group and Dor Gas Explorations, carried out drilling operations at the Tamar site. On March 31, 2013 the first flow of natural gas reached the Israeli shores. See Kershner, I. "Israel Taps an Offshore Natural Gas Field". The New York Times. March 31, 2013.

⁴ Blanche, E., 2013 "Gas -Mania in the Med", *The Middle East*, Issue 440: 33-37. PGS Geophysical AS has entered into an exclusive agreement with the Ministry of Water and Energy to acquire non-exclusive Multiclient MC3D seismic offshore Lebanon. The offshore area approximately covers 25,000 Sq.km.

the northern area, on the border with Syria and Cyprus. Beicip Franlab's estimates include 15 trillion cubic feet of gas off the coast of Lebanon.⁵ Officials estimate the value of Lebanon's calculated gas reserves offshore to be between \$300 billion – \$700 billion, but Dolphin Geophysical estimated values worth of \$40 billion.⁶

Following these recent discoveries and offshore prospects, the Eastern Mediterranean has become the focus of increased international interest. If developed successfully, these discoveries could change the energy picture in the region. In Lebanon, a bidding round for companies interested in the exploration and production of gas and oil on the offshore demarked blocks was initiated in early 2013.⁷ International Oil Companies (IOCs) have expressed interest and turned out in large numbers during the Lebanese government's sponsored 2011 and 2012 conferences. Many purchased seismic survey data and others teamed up ahead of the bidding selection rounds. In early March of 2013, the giant French oil company TOTAL and the Russian LUKOIL agreed, in a joint venture, to take part in tenders whose aim is to explore Lebanon's offshore. In the same month, the Minister of Energy announced that fifty two international energy companies have applied to the prequalification licensing round, including Exxon, Mobil, TOTAL, Chevron, BP, and the National Iranian Drilling Corporation.⁸

The Government of Lebanon has led, in the past few years, an intensive effort to develop the administrative and legal infrastructure of its future gas and oil sector. In 2010 the government passed the Offshore Petroleum Resources Law 132 (OPRL) that enables it to set petroleum policies, grant rights and authorize the Minister of Energy to sign Exploration Petroleum Agreements (EPA) with successful bidders. A six-member Petroleum Administration (PA) authority was also established in 2012 to assist and advise the government in the regulatory functions of the sector.⁹ Various relevant regulatory and enforcement decrees were enacted with the sole purpose of meeting the international standards and providing operators and investors with legal assurances and guarantees. A mandatory consortium of three right holders for each dedicated offshore block is intended to provide greater transparency.

Eventual resource revenues could reduce Lebanon's debt of US\$54 billion (more than 130% of GDP) and offset \$1bn per year in imported energy expenses. Nonetheless, and despite the promises and the efforts made, fundamental obstacles and challenges remained. Most important to note is the high potential for conflict in this already volatile region, with tension being triggered by the availability of extractive resources. Unresolved tension over the demarcation of maritime boundaries between Lebanon and Israel, along with deep domestic sectarian and

⁵ Lebanese *An Nahar* newspaper report. February, 2013.

⁶ Habib, O. "Experts estimate 40 billion gas reserves of Lebanese coast". *The Daily Star*, February 19, 2013.

⁷ http://lebanon-exploration.com/Leb_1st_Licensing_Rnd.htm (February, 2013).

⁸ Wählisch, M., 2011. "Israel-Lebanon Offshore Oil & Gas Dispute – Rules of International Maritime Law". *Insight*, 15:31. http://www.asil.org/insights111205.cfm#_ednref20 (March, 2013).

⁹ Petroleum Administration was stipulated by the 2010 OPRL and formed by the Council of Minister Decree no. 7968 (March 2012).

political divisions could be exacerbated by disputes over the ownership and distribution of future gas and oil resources and revenues.

These concerns are further expressed by challenges relating to the transparent and effective governance of extractive industry and, in particular, to the Lebanese government's many shortcomings. They include: deficient regulatory and audit agencies, absent national strategic planning, lack of public awareness of the issues, and the underdeveloped capacity of civil society to monitor and engage in the sector's oversight. Domestic disputes and the frequent collapse of successive governments -- the latest relating to the resignation of Prime Minister Najib Mikati in March 2013, shed serious doubt about the ability of Lebanon to sustain such a sector.

Evidently, the main concern is related to the traditionally held view that positively correlates newly extractive resources with inter and intra-national conflicts.¹⁰ In the case of Lebanon and the surrounding region, this hypothesis appears self-evident as Lebanon, Syria, and Israel have engaged in various conflicts over border delimitations, with rights to water and fertile lands often sparking disputes. Lebanon's weak state and fragmented polity along with deeply divided sectarian society have been overwhelmed by years of civil war and conflicts over power sharing and distribution of public resources.¹¹ Thus, understanding Lebanese domestic and regional constraints in the context of the offshore gas and oil industry is critical for framing the prospects and implications of offshore gas and oil extraction.

Offshore Gas, Oil, and Boundaries

Lebanon does not have a settled maritime boundary with any of its neighbours: Israel, Cyprus, Turkish Northern Cyprus, and Syria. Cyprus and Lebanon entered a maritime agreement in 2007, which was ratified by Cyprus but not by Lebanon. A so-called "Point 1" on the map was set as a shared dividing point between Lebanon and Cyprus in 2007.¹²

In July and October 2010, Lebanon deposited the geographical coordinates of its southern boundary with Israel and its south-western boundary with Cyprus with the UN Secretary-General.¹³ However, these unilaterally declared maritime boundaries were different from those of Lebanon's 2007 agreement with Cyprus. Lebanon's 2010 maritime boundary submission uses a different coordinate ("Point 23"), seventeen kilometres southwest of Point 1 and overlapping the area claimed by Israel.

¹⁰ Rustad, S.A. & Binningsbo, H.M., 2012. "A price worth fighting for? Natural resources and conflict recurrence". *Journal of Peace Research*, 49(4): 531-546.

¹¹ Salamey, I. and Tabar, P., 2012. "Democratic Transition and Sectarian Populism: The Case of Lebanon". *Contemporary Arab Affairs*, 5(4): 37-41.

¹² Wählich, M., 2011. "Israel-Lebanon Offshore Oil & Gas Dispute – Rules of International Maritime Law". *Insight*, 15:31. http://www.asil.org/insights111205.cfm#_ednref20 (March, 2013).

¹³ See UN Maritime Space: Maritime Zones and Maritime Delimitation, <http://www.un.org/depts/los/LEGISLATIONANDTREATIES/STATEFILES/LBN.htm> (March 2013).

Cyprus and Israel, on the other hand, signed a maritime agreement regarding the delimitation of the Exclusive Economic Zone (EEZ) between the two countries in December 2010. It was ratified by Cyprus in February 2011 and by Israel in October of 2011.¹⁴ The agreement between Israel and Cyprus relied on coordinates similar to the 2007 Lebanon-Cyprus Agreement. The result was a discrepancy in the demarcation of the maritime boundaries and the emergence of a Lebanese-Israeli disputed area of 879 km² in the southwest corner of the Lebanese EEZ. To add to this dilemma, Turkey objected to the agreements between Cyprus and Lebanon in 2007, and to those of Cyprus and Israel in 2010, calling them "null and void" because they ignored the jurisdictional claims of the Turkish Republic of Northern Cyprus. Syria also raised some objections against the Lebanese interpretation of the northern maritime border. Mediating a resolution to disputed boundaries is further complicated by the fact that none of the Levant Basin countries, other than Lebanon, has ratified United Nations Convention on the Law of the Sea (UNCLOS), although these rules are considered binding on all states as customary international law.¹⁵

The fact that neither Turkey recognizes Greek Cyprus nor does Lebanon recognize Israel --with the latter countries being in a permanent state of war since 1949-- are additional constraints confronting the future extraction of gas and oil in the region. Given the existing maritime disputes and the lack of an international framework for mediation, an international crisis is looming.¹⁶ Both Lebanon and Israel have been exchanging warnings and threats while third party mediations, including that of the United States and Cyprus, have failed to bring the feuding countries to an agreement.

Extractive Resources and Divided Society

Lebanon is a small, war-torn country in an unstable region. The number of inhabitants is roughly four million, its superficies is 10,452 km², and its territorial frontiers extend 360 km.¹⁷ Of these, 82 km are shared with Israel in the south, and 278 km of borders are shared with Syria to the east and north. The Lebanese coastline is 210 km. The country has suffered two foreign occupations and fifteen years of civil war (1975-89). Israel occupied parts of South Lebanon until a unilateral withdrawal in 2000, and Syria had a strong presence until the 'Cedar Revolution' of 2005. The

¹⁴ Agreement Between the Government of the State of Israel and the Government of the Republic of Cyprus on the Delimitation of the Exclusive Economic Zone, Dec. 17, 2010, available at http://www.un.org/depts/los/LEGISLATIONANDTREATIES/PDFFILES/TREATIES/cyp_isr_eez_2010.pdf (March, 2013).

¹⁵ Jiuyong, S., 2010. "Maritime Delimitation in the Jurisprudence of the International Court of Justice". *Chinese Journal of International Law*, 9:2, 271-291.

¹⁶ Karam, Z., 2011. "Israel-Hezbollah Dispute Emerging Over Mediterranean Resources". *Huffington Post*. July 26, 2011. http://www.huffingtonpost.com/2011/07/26/israel-hezbollah-dispute_n_910224.html? (March, 2013).

¹⁷ Due to the communal and political sensitivities no census has been conducted since 1932. All numbers are therefore approximate. A survey conducted by the Central Statistical Administration in 2007 estimated 3,759,000 Lebanese citizens and 420,000 Palestinian refugees (UNWRA 2008). In addition, there is an estimated 300,000 Syrians foreign workers in Lebanon. The official numbers of Syrian refugees in February 2013 amount to 261,000. But President Michel Suleiman announced that the number has reached one million in March of the same year.

country is also the home of a half million Palestinian refugees, and has been bearing the brunt of the Syrian crisis, with the influx of refugees approaching one million in 2013. The fragmented sectarian make-up of the Lebanese society, where numerous groups have strong cross-national communal affiliations, makes Lebanon an easy prey of foreign meddling.

There are at least four major competing domestic sectarian groups engaged in political struggle for power, while being sponsored by foreign countries: Catholic Maronites, Muslim Sunni, Muslim Shia, and Muslim Druze. While intra-sectarian division has existed, the overarching inter-sectarian struggle has prevailed in pitting one sect against the other and in framing cross-sectarian alliances throughout the country's modern history. In order to strengthen their respective position in the intra-national power struggle, and to attain foreign backing, sects have either played a proxy serving role or simply flashed the sectarian card to win kinship sympathy.¹⁸ A deeply divided and fragmented society with a weak state institutionalism and a disputed sense of national identity has been responsible for the prevalence of sectarian communalism on the account of collective nationalism.¹⁹

With the exception of few post-war national reconstruction projects accomplished during the premierships of Rafic Harriri (1992-1998, 2000-2004) and Fouad Saniora (2005-8), domestic politics has undermined strategic planning in favor of short-term and temporary fixes. Recurring government crises and collapses hindered reversing the trend. Mutual sectarian fear halted the utilization of international support offered to Lebanon at various opportunities, such as that of the Paris III international conference that pledged ten billion dollars in aids for the country.²⁰

The prospect of offshore gas and oil exploration and extraction has already mobilized the various sectarian political groups in respective drive to control and appease benefits. The battle began with establishing the Petroleum Administration (PA) authority of the sector and the appointment of its six-member board. Political struggle culminated in a sectarian power sharing formula where membership was distributed along sectarian affiliation. Forecasting the potential domestic disputes of granting EPA to tenders who's IOCs headquartered in a country deemed hostile to one of the Lebanese sectarian groups, a consortium of three companies has been set as a precondition for granting an EPA. Ministries that are typically headed by Ministers of various sectarian and political affiliations have been dedicated with some jurisdictions over the sector (Environment, Finance, Energy, and Economy). Yet, these sectarian oriented governing frameworks have not yet experienced the actualization of production or reaping the benefits of

¹⁸ Salamey, I. and Pearson, F., 2007. "Hezbollah: A Proletarian Party with an Islamic Manifesto - A Sociopolitical Analysis of Islamist Populism in Lebanon and the Middle East", *Journal of Small Wars & Insurgencies*, 18(3): 416-438.

¹⁹ Salamey, I., 2009. "Failing Consociationalism in Lebanon & Integrative Options". *International Journal of Peace Studies*, 14(2): 83 - 105.

²⁰ Baroudi, S. and Salamey, I., 2011. "US-French collaboration on Lebanon: How Syria's role in Lebanon and the Middle East contributed to a US-French Convergence". *The Middle East Journal*, 65(3): 398 – 425.

revenues. Ahead of that challenge, efforts have been directed toward the potential formation of a National Oil Company (NOC) and the foundation of a Sovereign Wealth Fund (SWF).

Fear of corruption throughout this process has risen, as political meddling in licensing rounds and in contracting IOCs has been expected. Yet, the real concern remained whether this sector will be spared from sectarian political battle when revenues begin to emerge and IOCs compete to take part. Thus, the major question is whether possible to develop the offshore gas and oil industry in Lebanon without turning such prosperity into additional fuel for domestic and regional feuds.

Extractive Resource Curse Views

The ‘curse’ views correlate a country’s dependency on extractive resources with a series of deteriorating economic developments, such as widespread corruption, and the eventual growth of authoritarianism.²¹ Underlying this rationalism is a consequential breakdown of government accountability due to the emergence of state-people rentier relationship.²² In the case of Lebanon, this view could be consolidated by the prevalence of a large informal economic sector, which has undermined the accountability relationship between the government and its citizens.²³

Still, the most serious concern associated with the curse views correlate newly discovered wealth with international and intra-national armed conflict.²⁴ Considering the deep sectarian divisions in Lebanon, weak state, prevailing external meddling in its domestic affairs, and unresolved maritime boundary delimitation, the curse views appear applicable. With the presence of rival sectarian armed groups, such as Hezbollah among the Shia and the Progressive Socialist Party among the Druze, as well as the various Sunni Lebanese, Syrian, and Palestinian Islamist bands, the country seems ripe for intra-national armed conflict. Israel-Lebanon ongoing land and offshore boundary disagreements, at the time where both countries do not recognize one another nor accept a direct peace dialogue to end over a half-century long stalemate, in addition to the absence of security arrangement on both sides of the border, can easily turn extractive resources into a catalyst for armed conflict.²⁵ Rhetoric and threats between both countries have been rising ahead of the offshore exploration. Hezbollah General Secretary, Hassan Nassrallah repeatedly

²¹ Ross, M., 1999. “The political economy of the resource curse”. *World Politics*, 51, 297- 322; Ross, M., 2001. “Does oil hinder democracy?”. *World Politics*, 53, 325-361; and Ross, M., 2001. “Extractive sector and the poor”. *Oxfam America Report*.

²² Luciani, G., 2005. “Oil and Political Economy in the International Relations of the Middle East”. In *International Relations of the Middle East*, ed. Louise Fawcett, pp. 81–102. New York: Oxford University Press.

²³ Kamarava, M., 2002. “The Politics of Weak Control: State Capacity and Economic Semi-Formality in the Middle East”. *Comparative Studies of South Asia, Africa and the Middle East*, 22:1&2, 43-52.

²⁴ Lowi, M., 2008. “Scare Water, Abundant Oil: Resources and Conflict in the Middle East and North Africa”. Paper presented at the International Studies Association, San Francisco, March 26-29, 2008

²⁵ See the examination of the relationship between interstate conflict and border proximity of extractive resources in Caselli, F. & Morelli, M. & Rohner D., 2012. “The Geography of Inter-State Resource Wars”. Working Paper. Princeton University.

warned Israel “not to touch this area or try to steal Lebanon’s resources,”²⁶ while the Minister of Energy and Water, Jibril Bassil, warned that if Israel violates the law of the sea, “it will pay the price.”²⁷ Lebanese President Michel Suleiman recently suggested that Hezbollah has the right to defend Lebanese claimed deposits from possible Israeli incursions.²⁸ Former Israeli Minister of National Infrastructures Uzi Landau and Prime Minister Benjamin Netanyahu responded with warnings that Israel will use force to protect its rights.²⁹ The rhetoric culminated in Israel’s July 2011 unilateral demarcation of its northern maritime boundaries with Lebanon and Cyprus.³⁰ The Israeli Navy maintains a twenty-four hour watch over the offshore gas site, using drones.³¹

The potential of cross border conflict between Lebanon and Israel over offshore disputes is destined to grow following the Lebanese government’s latest pre-qualification licensing round for international energy tenders. In late March the government announced that among the fifty-two applied bidders is the National Iranian Drilling Corporation (NIDC).³² This presents a two-fold complication for Lebanon. First, the participation of the NIDC will fuel both domestic and international tensions. Most of the Iranian oil industry is being scrutinized by international sanctions, including Iran’s fleet and national oil company, for fear of revenues being used to support the country’s nuclear program, as well as the Iranian Revolutionary Guards, and the U.S. declared terrorist groups and Iranian allies such as the Lebanese Hezbollah and the Palestinian Hamas and Al-Jihad. Non-Shia and non-Iranian sympathetic sects and political groups in Lebanon, and now in Syria, are already alerted for the growing influence of Shia Iran in Lebanon and may potentially stand ready to violently sabotage the entire process of exploration and extractions. The participation of the NIDC in a consortium of companies along European or U.S. IOCs may, at the same time, fuel international contradictions and present a serious legal dilemma over collaborations. Second and more important, however, is the position that Israel may take relative to increased Iranian activity close to its border. NIDC role may appear provocative and Israel may even consider it as a breach of its national security. Israel claims Iran’s nuclear program is an existential threat and places Iranian- affiliated Hezbollah among its biggest security challenges, thus a military reaction to any potential Iranian hydrocarbon extraction

²⁶ Karam, Z. “Israel-Hezbollah Dispute Emerging Over Mediterranean Resources”. *Huffington Post*. July 26, 2011. http://www.huffingtonpost.com/2011/07/26/israel-hezbollah-dispute_n_910224.html? (March, 2013).

²⁷ Mroueh, W. 2011. “Lebanon to Fight Israel at U.N.”. *Daily Star*. July 11, 2011. <http://www.dailystar.com.lb/News/Politics/2011/Jul-11/Lebanon-to-fight-Israel-at-UN.ashx> (March, 2013).

²⁸ Zaatari, M. “Sleiman calls for defense strategy to protect oil wealth”. *Daily Star*, January 19, 2013. <http://www.dailystar.com.lb/News/Politics/2013/Jan-19/202885-sleiman-calls-for-defense-strategy-to-protect-oil-wealth.ashx> (March, 2013).

²⁹“Landau: Israel Would Defend Off-shore Gas Find With Force”. *Jerusalem Post*. June 27, 2010. <http://www.jpost.com/Israel/Article.aspx?id=179620> (March, 2013). “Netanyahu Vows to Defend Med Gas Fields”. *Cumhuriyet*. January 19, 2011. <http://www.cumhuriyet.com/?hn=209634> (March, 2013).

³⁰ Israel Ministry of Foreign Affairs, Cabinet Communique. July 10, 2011. available at http://www.mfa.gov.il/MFA/Government/Communiques/2011/Cabinet_communique_10-Jul-2011. (March, 2013).

³¹ Katz, Y. “IDF Ddeploys Drones to Protect Gas Fields From Hezbollah”. *Jerusalem Post*. Aug. 9, 2011. <http://www.jpost.com/Defense/Article.aspx?id=233002>. (March 30, 2013).

³² Ohrstom, L. “Lebanon’s offshore gas fields draw 52 bidders”. *Daily Star*. March 29, 2013. <http://www.dailystar.com.lb/Business/Lebanon/2013/Mar-29/211858-lebanons-offshore-gas-fields-draw-52-bidders.ashx#axzz2OulUi0YF>

operations is highly probable, sparking a tit-for-tat armed engagement against offshore operations as well as future installations and transportations.

Extractive Resource Blessing Views

In contrast to the extractive resources ‘curse’ views, a ‘blessing’ paradigm emphasizes collective interest as a rationale for cooperation.³³ Thus, in a conflict-prone and deeply divided society with disputed international boundaries, extractive resources could serve as a catalyst for intra and inter-conflict transformation. The actors within this rational matrix weigh the gains and cost of their cooperation and accordingly make their respective choices. Given that cooperation over extractive resources increases collective benefits, in an otherwise volatile region, conflict mitigation is expected to emerge.³⁴ Such a view has found partial evidence in West African countries. Similar research correlates the decline of conflict with newly extractive resources in non-democratic divided societies.³⁵

Despite all the challenges and situational complexities of the hydrocarbon extractive industry in Lebanon, important indicators point to a ‘blessing’ rationalism that may contribute to the transformation of the conflict toward cooperation. The fact that giant IOCs have already expressed interest and applied for a pre-qualification licensing round is indicative of positive transformation. These IOCs come from various national backgrounds including American, French, British, Dutch, and Russian. International strategy of cooperation for the purpose of collective interest has already been demonstrated via the exploration agreement established between the French oil company TOTAL and the Russian LUKOIL. Lebanese domestic division would favor the licensing of as many IOCs as possible, representing different international political interests. The TOTAL-LUKOIL modality appears as a winning corporate strategy. This could eventually establish an international stake in Lebanon’s stability and insinuate international pressure and cooperation for domestic conciliation. The presence of NIDC, may serve as a stabilizing factor rather than the contrary. The political inclusivity of IOCs’ operations would undermine domestic division and establish unanimous sectarian support. Israel’s ability to undermine exploration and extraction activities will be largely restrained by the interest of U.S., British, and European operating companies. Iran, through its domestic ally – Hezbollah, may seek a calm border in return for economic benefits. It is highly likely, thus, that the consortium of international operators would nurture an environment of political stability and, indirectly, act as an agent for conflict transformation.

³³ Nicholas, H. and Kane, S., 2009. *Negotiating Natural Resources for Peace: Ownership, Control and Wealth-Sharing*. Geneva: Centre for Humanitarian Dialogue. Pa’ivi, L. and Rustad, S. (eds), 2012. *High-Value Natural Resources and Post- Conflict Peacebuilding*. London: Earthscan.

³⁴ Stiglitz, J., 2012. “From Resource Curse to Blessing”. Project Syndicate. <http://www.project-syndicate.org/commentary/from-resource-curse-to-blessing-by-joseph-e--stiglitz> (March, 2013).

³⁵ Arezki, R. and Gylfason, T., 2013. “Resource Rents, Democracy, Corruption and Conflict: Evidence from Sub-Saharan Africa”. *Journal of African Economies*. 1-18.

Despite domestic sectarian political fragmentation and weak state, the prospect of extracting offshore gas and oil has assembled together antagonist groups under a common agenda. The passage of the 2010 OPRL is a case in point. Following its passage, and despite the 2011 government collapse and the long period of power vacuum, political cooperation between opposition and new government continued to yield various hydrocarbon offshore agreements. The government was able to approve regulations -- most importantly is the 2012 establishment of the PA within the framework of sectarian consociationalism. Each of the six PA members was of a different sectarian affiliation, and together they represented the mosaic of Lebanese sectarian groups. In 2013, the government succeeded, without much disagreement, to launch a licensing round and attract major IOCs. These domestic successes are indicative of Lebanese domestic groups' aspirations to attain collective benefits. The existence of a handful of autocratic-styled sectarian decision-making figureheads has facilitated agreements and consensus.³⁶ The Lebanese case seems to stand in support of the hypothesis that correlates the decline of conflict with newly extractive resources in relatively non-democratic [or semi-democratic] divided societies.³⁷

Lebanon at a crossroad: Which way forward?

For deeply divided societies, most literature associates newly extractive resources with political deterioration and conflict. The case of Lebanon, however, may reveal deviating trends. Evidence points out to serious domestic and international challenges that may help ignite regional and intra national conflict driven by disputes over boundaries, regional rivalries, and domestic sectarian fears. Optimism, however, is demonstrated by emerging cooperation between internationally sponsored IOCs and the consequential regional and local stabilization implication. In addition, domestic political behaviors reveal local cooperation among traditionally polarized and divided political groups toward fostering the legal and administrative framework, attract the IOCs, and jump start the sector.

A roadmap that builds on international experiences and lessons learned is a prerequisite for a “blessing” transformation. The country is in dire need of overcoming major obstacles as to undermine potential conflicts and turn a curse into a blessing. Among the difficulties is achieving the demarcation of maritime boundaries and resolving existing regional disputes. Third party mediation and international arbitration is needed to demark boundaries. And if agreement is not immediately reachable, alternative conflict mitigation plans need to be devised, such as the possible postponement of extraction in disputed areas or formulating third party leasing plans that provide distribution of revenue. Also pending is building an effective governance and

³⁶ Salamey, I. and Tabar, P., 2012. “Democratic Transition and Sectarian Populism: The Case of Lebanon”. *Contemporary Arab Affairs*, 5(4): 37-41.

³⁷ Lebanon is considered a sectarian consociational democracy with sects enjoying relative autonomy in a proportional power sharing formula. On top of each sect, however, stand one or two autocratic leaders who dictate the fate and decision of the sect. Thus, it is difficult to characterize Lebanon as a full democracy, but more accurately as a transitional semi-democratic regime. See Salamey, I. and Tabar, P., 2012. Op. Cit.

financial management of extractive resources. Avoiding corruption and strengthening institutional accountability are among the priorities.

Ahead of exploration and extraction operations, Lebanon needs to develop strategies to negotiate EPAs to insure its fair share of revenues.³⁸ Yet, most critical is to institutionalize a hydrocarbon fiscal regime that would deflect domestic feuds and defuse sectarian power struggle.³⁹ The establishment of a SWF is a step in that direction. Still pending, however, are the governability of the SWF and the formulation of its investment strategies -- which would need to be linked to an approved national development plan.⁴⁰ The foundation of a NOC is another issue awaiting determination. Though this is part of most national petroleum strategies that promise local employment and revenues, Lebanese public sector experiences are not encouraging. Sectarian political patronage has divided every publicly operated institution into spheres of influence, spreading corruption and sparking internal tensions. The ailing Lebanese Electric Company provides a vivid example of such a reality.

Accountable regulatory and audit mechanisms still need to be developed. An essential component of this prospect is increased political participation of citizens in this process, starting with civil society. Lebanon has a vibrant civil society community, which can potentially play an important role in monitoring the gas and oil sector. Capacity building, especially through education on gas and oil governance, will help enhance civil society's potential to perform its oversight functions adequately. Civil society engagement with the government will also be critical in pushing through transparency and anti-corruption measures which have remained at the planning stage for more than a decade. More recently, the government established an inter-ministerial and interagency anti-corruption coordination committee under the Office of the Prime Minister in response to the UNCAC requirements. This committee, covering a number of agencies, institutions and ministries, was tasked with drawing up a policy to fight corruption. As a result of its work, a package on governance--containing a draft access to information law, a proposal for the establishment of a Corruption Commission, increased whistle-blower protection and improved regulation of illicit wealth--was recently submitted to Parliament. The Corruption commission is intended to have independence and investigative authority, and the ability to refer cases to other judicial bodies. The passage of these legislations will greatly support the accountability of the future extractive industry.

³⁸ Yassine, A., Maddah, B., and Younes, N., 2013. "On Structuring Offshore Hydrocarbon Production sharing Contracts: Lebanon's Case". *Journal of World Energy Law & Business* [Online]. <http://jwelb.oxfordjournals.org/content/early/2013/02/09/jwelb.jwt003.full?sid=b773051e-2384-417e-b489-b9d9f6b55303> (March, 2013).

³⁹ Rustad, S.A. and Binningsbo, H.M., 2012. "Sharing the Wealth: A Pathway to Peace or a Trail to Nowhere?". *Conflict Management and Peace Science*, 29:5, 547-566.

⁴⁰ A national development plan that is based on decentralization strategies have often been cited as a way to undermine tensions in divided society. See Schenke, J.M., 2011. *Oil Politics in the New Iraq*. MA Thesis. The University of Texas at Austin.

Thus, for a deeply divided society, a comprehensive and multi-faceted approach that combines domestic and international engagements is required for assuring the ‘blessing’ of extractive resources. The regional and domestic complexities of the Eastern Mediterranean Basin countries will continue to reveal challenges and pose risks to offshore gas and oil extractions. However, collective international and domestic benefits may outweigh existing shortcomings and insinuate reason for conflict mitigation.