

ANALYSIS OF THE PETROLEUM
SECTOR IN LEBANON



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1 ACRONYMS

CARD	Centre for Arab Research and Development
CoM	Council of Ministers
EEZ	Exclusive Economic Zone
EGPC	Egyptian General Petroleum Company
EPA	Exploration and Production Agreements
GoL	Government of Lebanon
IDAL	Investment Development Agency in Lebanon
IOCs	International Oil Companies
LCPS	Lebanese Centre for Policy Studies
LNG	Liquefied Natural Gas
LTA	Lebanese Transparency Association
MEA	Multilateral Environmental Agreements
MEW	Ministry of Energy and Water
MoE	Ministry of Environment
MoF	Ministry of Finance
MoJ	Ministry of Justice
NOC	National Oil Company
OfD	Oil for Development
OMSAR	Office of the Minister of State for Administrative Reform
OPRL	Offshore Petroleum Resource Law
PA	Petroleum Sector Administration Authority
PAR	Petroleum Administration Regulations
PWYP	Publish What You Pay
SEA	Strategic Environment Assessment
UNCLOS	The United Nations Convention on the Law of the Sea
UNSR	UN Security Resolution

EXECUTIVE SUMMARY

1.1 INTRODUCTION

In the context of the emerging petroleum sector in Lebanon, Norway and Lebanon have been involved in development cooperation under the Norwegian programme Oil for Development (OfD). The objective of the OfD programme has been to assist Lebanese authorities in building the necessary capacities for establishing a sound management system for the emerging Lebanese petroleum sector. The OfD programme ended in 2012, and Lebanese authorities have requested a renewal of the programme for another three-year period. To that end, this baseline analysis of the Lebanese petroleum sector assesses how continued Norwegian assistance and capacity building might be most valuable, and have the most enduring and beneficial effects, for Lebanon's sustainable management of its petroleum resources.

The petroleum sector in Lebanon is moving from a phase of planning to one of early implementation, although the existence and size of recoverable resources remains uncertain. Lebanon struggles with a demanding and highly unpredictable domestic and regional political setting. The country also enjoys a mixed record on governance, public management, and transparency. In the midst of these challenges, Lebanon is quickly laying the administrative groundwork for the petroleum sector's inevitable development. The Petroleum Sector Administration Authority (PA) was established in November 2012, the pre-qualification process for licensing was launched in mid-February 2013, and bidding rounds are slated for May 2013.

1.2 OVERVIEW OF REGIONAL AND POLITICAL CONTEXT

Estimated Lebanese offshore reserves are located in an oil and gas basin stretching into the offshore territories of Israel, the Gaza Strip, Egypt, Syria, Cyprus, and the Republic of Northern Cyprus (and Turkey). Lebanon does not have settled maritime borders with any of its neighbours. The most important jurisdictional issue affects an area covering 879 km² in the southwest corner of the Lebanese economic zone, over which Israel and Lebanon both claim jurisdiction. The prospects for resolution of this dispute are poor given the current domestic and regional climate.

The absence of a settlement influences management of the petroleum sector in Lebanon in various ways. It affects the Lebanese authorities' manoeuvrability; it influences prospects for the sector and the approach private companies adopted; and it impacts on environmental management. Sensitive jurisdictional issues also arise with respect to Cyprus, Turkey and Syria. Lebanese authorities appeared to initially underestimate the impact of these jurisdictional issues on the offshore petroleum sector. This situation has recently changed, and the Lebanese authorities have established some structures to manage these difficult and important questions for the sector.

The challenges of the overall Lebanese context and the domestic and regional misgivings are a reality the petroleum sector cannot escape, nor completely insulate itself from. Regional tensions impact the domestic climate in Lebanon unfavourably, by exacerbating communal tensions and sectarian dynamics. General governance patterns in Lebanon, most notably, sectarianism, patronage, corruption and lack of transparency, represent persistent barriers to sustainable management and good governance. These features pose key challenge once the emerging petroleum management structure moves into the implementation phase.

1.3 OVERVIEW OF KEY STRUCTURAL FEATURES IN THE PETROLEUM SECTOR

Despite the considerable challenges outlined above, there are indications that the key institutions and mechanisms linked to the petroleum sector are coping relatively well so far. Lebanon has established a legal framework and governance structure for its nascent petroleum sector that incorporates necessary elements of international best practices, but at the same time, is adjusted to fit the realities of the Lebanese context. Although this system may deviate on certain points from ideal arrangements, there are credible explanations for the model chosen. The challenges, pitfalls, and inherent risks for the Lebanese petroleum sector are nevertheless numerous.

The petroleum sector governance structure grants the Council of Ministers (CoM) ultimate responsibility for decrees, while vesting primary regulatory authority with the Minister of Energy and Water and the PA. This arrangement is likely to promote effective and timely decision-making and management, but deprives the Parliament of any meaningful oversight of the sector. The PA's sector-specific competence bodes well for its role in promoting sound management. Nevertheless, the governance structure raises concerns about the relative strength of the Minister of Energy and Water in relation to the PA and the CoM.

The Lebanese petroleum governance structure is based on a model in which the regulator is subject to political control; it is not wholly independent. There are benefits and drawbacks to this approach. On the one hand, the confessional design of the regulator (PA) and the decision-making entity (CoM) may allow petroleum sector regulation to continue even when political bodies are paralyzed. On the other hand, there are concerns that sectarian interests and patronage may "crowd out" objectives related to sustainable management of the sector. In the long run, the model may strengthen sectarian loyalties rather than weaken them. Although initial evidence of the PA's performance is promising thus far, its lack of independence from political interference could have possible negative consequences for the state's formal decision-making structures, and its authority and ability to properly manage the sector.

1.4 OVERVIEW OF LEGAL FRAMEWORK

The legal framework for the petroleum sector relies on the Offshore Petroleum Resource Law of 2010 (OPRL) as a brief framework law, accompanied by numerous decrees that flesh out the OPRL's less detailed provisions. Certain controversial draft laws relevant to the petroleum sector have been postponed (relating to onshore exploration and extraction, the establishment of National Oil Company (NOC), and the drafting of a Sovereign Wealth Fund law). Similarly, various government decrees are still at the drafting stage or have been tabulated for a vote. Despite these delays, the legal and regulatory framework achieved thus far is sufficient for the Government of Lebanon (GoL) to administer licensing rounds in 2013. Judging from available materials, the regulatory framework in Lebanon represents a compromise between aspirations and realities, largely adapting international best practices to a Lebanese context.

1.5 FINANCIAL AND ENVIRONMENTAL MANAGEMENT

Lebanon has numerous strengths. It is an open market economy and has a strong financial sector. The framework for fiscal management of petroleum resources remains in the preparatory phases. Although institutional capacities are stretched thin, Lebanon places a high priority on this issue. The same cannot be said for environmental issues and risk management. Environmental protection and emergency response capabilities are inadequate for petroleum activities at present. Institutional capacities remain weak,

although the establishment of an environmental department in the PA and recent legislative initiatives may indicate a promising shift.

1.6 OVERSIGHT AND TRANSPARENCY

The petroleum sector will largely rely on the same oversight and control mechanisms as other public sectors. This is not reassuring. Internal and external oversight mechanisms in Lebanon are generally weak. The persistent reluctance of political and sectarian decision-makers to allow for independent oversight mechanisms affects transparency and accountability in three notable ways. Firstly, it reduces the ability of Lebanese governing bodies to withstand and combat potential corrupt practices. Secondly, it limits public oversight entities from holding government and public officials accountable. Thirdly, it allows certain important decision-making structures to remain opaque.

The overall climate of oversight and accountability also influences the work and potential of traditionally independent actors, such as the media and non-governmental organizations (NGOs). Seen in a regional perspective, Lebanon has a long tradition of a high degree of freedom of the press. It also has a vibrant NGO community, and also serves as a hub for regional NGOs. Nevertheless, media and domestic NGOs are largely constrained by sectarian dynamics. This undermines their work and their potential for collective action. Notwithstanding these structural weaknesses, civil society can potentially play an important role in monitoring the petroleum sector. Capacity building, especially through education on petroleum-specific issues and the structure of petroleum governance in Lebanon is critical to enhance civil society's potential to perform its oversight functions adequately.

Lastly, although transparency and anti-corruption measures have remained at the planning stage in Lebanon for more than a decade, important steps have been taken over the past year to adopt a legal framework that improves access to information and establishes an anti-corruption body. The future fate of these initiatives remains uncertain.

1.7 KEY CHALLENGES FOR THE NEXT 3 YEARS

The petroleum sector in Lebanon is likely to face numerous challenges over the next three-year period. A non-exhaustive list of necessary steps to develop a viable and sustainably managed petroleum sector include the following:

Regional and political context

- Lebanon must make discoveries of a nature and size that makes extraction and the establishment of an industry realistic and profitable.
- Lebanon must come to an arrangement with neighbouring countries in order to mitigate the negative effects of its current jurisdictional deadlock.

Legislative and regulatory framework

- The regulatory framework must be further developed. Drafting of laws and legislation on the core issues of National Oil Companies (NOC), Sovereign Wealth Fund, and onshore legislation must be finalized. Work on the unfinished parts of the petroleum administration regulations (PAR) must continue.
- Lebanon must adopt and implement pending legislation on access to information.

- Lebanon must adopt the necessary auxiliary structures to the petroleum sector, notably, the planned initiatives for strengthened enforcement of anti-corruption and environmental policies.

Institutional capacity

- The early implementation phase will reveal the functionality of the petroleum governance structure. The particular political and sectarian context in Lebanon will pose a continuous threat to sustainable management in the sector. A key challenge is to allow the PA to establish a practice that maximises its level of integrity and independence.
- Cooperation between Lebanese government bodies must be streamlined in order to optimize solutions for the sector, avoid duplication of work, and increase effectiveness and capacities within and across sectors. The technical skills and institutional capacity of Ministries must be further strengthened.
- Lebanon must channel its huge educational potential into creating hubs of petroleum sector competence, ensuring that the proliferation of educational opportunities does not lead to a dilution of quality.

Financial and environmental issues

- Lebanon must implement the planned initiatives for strengthened enforcement of anti-corruption and environmental policies if adopted. A key challenge will be to ensure that these bodies are able to function as intended.
- A concerted effort must be made to bring environmental protection and contingency plans in Lebanon in line with best practices, and to implement them. Environmental issues should be given much higher priority.

1.8 KEY RECOMMENDATIONS:

If the OfD programme in Lebanon is renewed for another three-year period, the ILPI team recommends OfD programme planning to emphasize on the following priorities:

- **Strengthen the institutional capacities of the core petroleum governance structure**, by broadly engaging with the PA, providing technical assistance to key Ministries and engaging in dissemination of sector specific knowledge to decision-makers.
- **Adopt a targeted thematic emphasis**, by maintaining OfD's focus on financial management, while also addressing environmental issues and transparency.
- **Continue regulatory assistance**, with an emphasis on support to finish the regulatory framework for the petroleum sector, and advise on review of broader legislation.
- **Engage entities that may strengthen oversight and control mechanisms** by increasing petroleum-relevant knowledge in institutions with oversight functions in the sector, and engaging in capacity building of media and civil society actors more broadly.

- **Avoid engagement in certain sensitive areas**, notably, jurisdictional issues linked to offshore delineations, onshore regulatory framework and concerns directly linked to commercial issues.

INTRODUCTION

In 2007, Lebanon was recovering from war with Israel. A devastating oil spill along the coast during the war was accompanied by promising news on the size of Lebanese offshore petroleum resources. The Government of Norway and the Government of Lebanon agreed on a programme of bilateral development cooperation in January 2007. Norway pledged to provide technical assistance and support to Lebanon in the preparatory phases of establishing a Lebanese petroleum sector. The programme was set up under the Oil for Development programme (OfD) at NORAD. The programme was extended in 2010, and came to an end in 2012. The Government of Lebanon has requested a continuation of Norwegian assistance to the petroleum sector as Lebanon moves closer to the implementation phase. In this context, OfD commissioned ILPI to conduct this baseline study.

1.9 SCOPE

The purpose of this study is three-fold. Firstly, it describes the emerging Lebanese petroleum sector as of March 2013. The aim is to promote a shared understanding of the current status among OfD stakeholders. Therefore, a major emphasis of the report is on existing structures of governance and oversight, and identifying gaps that will require attention in the years to come.

Secondly, the study is intended to inform the design of a new programme, based on past experience. The scope of the report is therefore not limited exclusively to petroleum-related structures, but also offers a brief contextual analysis of politics, governance, transparency and accountability in Lebanon, emphasising features believed to influence petroleum sector management. This study identifies areas where Norwegian know-how and capacity building would likely be most effective in assisting Lebanon in preparing for sustainable management of its emerging petroleum sector.

Thirdly, the report identifies benchmarks to monitor the assistance provided should the OfD-programme continue. Specific indicators are annexed to the report (Annex 1).

1.10 METHODOLOGY

The methodological framework used for this baseline study is a combination of quantitative and qualitative indicators. The qualitative indicators were based on the checklist for assessing the state of petroleum-related governance developed by the OfD secretariat. These indicators were further elaborated through a selective review of the literature on the emerging petroleum sector and public sector more broadly in Lebanon, and refined by the team after an initial document review in January 2013. (See Annex 1, which presents detailed indicators for Lebanon.)

The analysis was completed based on a mix of a desk review, interviews with 12 participants in Norway in January of 2013, and interviews with 30 stakeholders at the national level in Beirut during a country field visit in February 2013. The field visit featured interviews with key informants, including senior political figures, representatives from government institutions, independent experts and stakeholders linked to the petroleum sector, and from oversight bodies, civil society, academic institutions.

As the petroleum sector in Lebanon is in its inception phase, certain initiatives relevant to management are still in the design phase; some are awaiting final approval; and others are adopted, but not yet implemented. Other issues are not relevant until discoveries are confirmed and production begins. The present study analyses recurrent challenges for

public management in Lebanon and identifies the key issues for the petroleum sector in the coming years. Lastly, the study presents recommendations on how best to meet these challenges, based on input from stakeholders in Lebanon, participants in the OfD programme in Norway, and ILPI team analysis.

2 CONTEXT FOR THE PETROLEUM SECTOR IN LEBANON

Lebanon is a small and war-torn country in an unstable region. The population is roughly 4 million¹. Lebanon's area covers 10 452 km², and its territorial frontiers extend 360 km. Of these, 82 km are shared with Israel in the south, and 278 km border on Syria to the east and north. The Lebanese coastline is 210 km.² Lebanon is a middle-income country.³ It ranks 71st on the 2011 UN Human Development Index.⁴ The country is currently experiencing an economic crisis, with a public debt of more than fifty billion dollars (41.6 billion euros), equivalent to about 148 % of the GDP (updated). Lebanon imports (93)% of its domestic energy needs. A future petroleum sector may thus have immense financial and energy security benefits, and become the main pillar of national sustainability. As a result, political and public expectations for a future petroleum sector are high.

2.1 LEBANON'S PETROLEUM RESERVES

Estimated petroleum reserves in Lebanon are located both offshore and on shore. The Lebanese offshore area covers a total of 22,730 km² in the Eastern Mediterranean Basin. The Lebanese onshore prospects are mostly located the Bekaa-valley.

2.1.1 Estimated size and location of reserves

Seismic surveys (3D) conducted off the southern coast of Lebanon in 2012 by the British firm Spectrum estimated the size of offshore gas deposits at 25 trillion cubic feet (tcf).⁵ For purposes of comparison, Norway had 71 tcf of natural gas reserves in January 2012⁶. This data was delivered to the Lebanese authorities in January 2013.⁷ Beicip Franlab published a resource base assessment report estimating reserves equivalent to 440 million barrels of oil (up till 675 million barrels) in the northern area, on the border with Syria and Cyprus. Beicip Franlab's estimated reserves of 15 trillion cubic feet of gas.⁸ Officials estimate the value of Lebanon's calculated gas reserves offshore to be between \$300 billion - \$700 billion, although the numbers are speculative and vary greatly.

2.1.2 Technical development/extraction to date

There are no wells drilled offshore, but the bidding round for blocks in the area was just launched. The CoM issued the decrees required for launching the tender in January 2013. The PA suggested pre-qualification criteria, which the CoM approved during the first week of February 2013. The pre-qualification phase for companies wanting to participate in the licensing of petroleum activities in the Lebanese offshore opened on 15 February 2013 and will close on 28 March 2013.⁹ The current timetable suggests that the first offshore licensing round will open in May 2013.¹⁰ Seven wells have been drilled onshore (1947-1967), indicating prospects of onshore petroleum. The Lebanese MEW has contracted Spectrum to acquire onshore oil data, scheduled for February 2013.¹¹

2.2 REGIONAL CONTEXT

Lebanon is a small country in a region ridden by strong geopolitical interests. It is an open society, which has earned it a dubious reputation as a 'mailbox' for tensions in the region. Lebanon suffered two foreign occupations in the prolongation of the Lebanese civil war (1975-89). Israel occupied parts of South Lebanon until a unilateral withdrawal in 2000, and Syria had a strong presence in Lebanon until the 'Cedar Revolution' in 2005, when the Lebanese public forced the Syrians to leave. Lebanon is home to 1/2 million Palestinian refugees, and bears the brunt of the Syrian refugee crisis, with official numbers approaching 300,000. The fragmented sectarian make-up of Lebanese society, in which numerous groups have strong communal affiliations across borders, makes Lebanon easy prey to regional instabilities.

2.2.1 The Levant Basin

Located in the eastern Mediterranean in the waters of Syria, Lebanon, Israel, Gaza, Egypt and Cyprus, the East Mediterranean Basin (Levant Basin) recently opened for offshore exploration and production. The US Geological Survey estimates that the Levant Basin contains 122 trillion cubic feet of recoverable natural gas, and 1.7 billion barrels of recoverable oil.¹² Israel has found the biggest field under the Basin to date. Leviathan, off the coast of Haifa, was discovered in 2010 (30 tcf), and production is expected to start in 2016. Tamar, found in 2009, holds 8tcf and is planned to come on-stream this year. In Cyprus, a field estimated at 7 tcf has been discovered. There are also prospects offshore in Syria.

2.2.2 Unresolved territorial delineations

Lebanon does not have settled maritime borders with any of its neighbours. Stakeholders in the Lebanese jurisdictional management of its off shore resources are Israel, Cyprus, Turkey (on account of Northern Cyprus) and Syria. Maritime boundaries between coastal neighbours are a continuation of the land border, or decided according to the meridian principle. Lebanon's land borders to the south are not finally settled, which increases the risk for disputes in a maritime area now proven to be rich petroleum resources. Lebanon ratified the UN Convention on the Law of the Sea (UNCLOS) in January 1995, but Israel, Turkey and Syria are not parties to UNCLOS. Nevertheless, the UNCLOS provisions are generally considered binding on all states as customary international law.¹³

Cyprus and Egypt entered a maritime agreement in 2003, clarifying the median line between them. **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 2007.¹⁴

Lebanon and Israel, formally at war for years, do not maintain diplomatic relations with one another. Israel established the current onshore boundary between the two countries with its unilateral withdrawal from Lebanon in 2000. Following the 2006 war between Israel and Hezbollah, the line has been monitored by the United Nations¹⁵. The border between Israel and Lebanon is not 'finally established', which complicates the delineation of precise maritime borders. Lebanon has asked the UN to supervise the demarcation of Israel's maritime border at the new deposit, but delineating maritime borders is broadly considered outside the scope of the UN's authority in this dispute.¹⁶ 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.¹⁷ However, these unilaterally declared maritime boundaries were different from those in Lebanon's 2007 agreement with Cyprus. Lebanon's 2010 maritime boundary submission uses a

different coordinate ('Point 23'), seventeen kilometres southwest of Point 1, overlapping the area Israel claims.

Cyprus and Israel signed a maritime agreement on delimitation of the Exclusive Economic Zone (EEZ) between the two countries in December 2010,¹⁸ ratified by Cyprus in February 2011,¹⁹ and by Israel in October of 2011. The agreement between Israel and Cyprus relies on coordinates similar to the Lebanon-Cyprus Agreement. Lebanon has protested, noting that Point 1 can only be viewed as a point that is shared by Lebanon and Cyprus, and not a starting point between Cyprus and any other country. Given the absence of agreement between Lebanon and Israel, the EEZ of Lebanon could even extend beyond this point.²⁰

Explanations for the Lebanese approach vary. Some suggest that the Cyprus-Lebanon 2007 agreement was only considered an interim solution.²¹ Others claim that Lebanon's then-government wanted to avoid further conflict with Israel right after the 2006 war.²² Some contend that Lebanon simply made a diplomatic mistake in 2007.²³ Several key informants in Lebanon largely confirmed this last understanding. A lack of appropriate structures within the Lebanese government to handle such issues, combined with an underestimation of their implications, seem to have contributed to the problems originating in the agreement with Cyprus.²⁴ Although these contentious areas constitute only approximately about 2% (854/579 km²) of offshore Lebanon, maritime border disputes may have a disproportionate effect on the stable progress of petroleum operations in the region.

The temperature has been rising in the rhetoric between Israel and Lebanon concerning offshore resources. Hassan Nasrallah, head of Hezbollah, has warned Israel 'not to touch this area or try to steal Lebanon's resources'²⁵ while the Minister of Energy and Water, Jibril Bassil, warned that if Israel violates the law of the sea, 'it will pay the price'.²⁶ Lebanese President Sleiman recently suggested an important role for Hezbollah in defending Lebanese deposits.²⁷

The Israeli approach has been equally vocal. Israeli Minister of National Infrastructures Uzi Landau²⁸ and Prime Minister Benjamin Netanyahu have warned that Israel will use force to protect its rights.²⁹ The rhetoric culminated in Israel's July 2011 unilateral proposal of its northern maritime boundaries with Lebanon and Cyprus.³⁰ To protect offshore gas fields, the Israeli Navy maintains a twenty- four-hour presence over the site, using drones.³¹

Turkey objected to the agreements between Cyprus and Lebanon in 2007,³² and Cyprus and Israel in 2010, calling them 'null and void' because they ignored the jurisdictional claims of the Turkish Republic of Northern Cyprus (which is only Turkey recognizes as a state, and which currently houses 35,000 Turkish troops). Syria has also raised objections to the Lebanese interpretation of the northern maritime border.

US attempts to mediate have proven futile. Very sensitive political issues may materialise as a consequence of offshore extraction activities in the Levant Basin. Interstate tension and conflict in the region may also fuel disputes concerning gas and oil deposits. The number of countries and shifting allegiances between the states involved makes this area very unpredictable.

Relevant General Indicators	Key baseline findings March 2013
2 The national onshore and offshore jurisdiction is defined and acknowledged by neighbouring states, and applies to petroleum activities.	National onshore jurisdiction is defined domestically in the EEZ-law. No neighbouring state has recognized Lebanon's jurisdiction.

2.2.3 Petroleum industries in neighbouring countries

The bilateral agreement between Israel and Cyprus is mutually ratified. This leads to an unfavourable position for Lebanon in its dealings with Cyprus on various levels.³³ Israel has finished its regulatory framework, and extraction is imminent. In March 2012 the energy ministers of Greece, Israel and Cyprus agreed to bolster cooperation to exploit their natural gas deposits. There are proposals to combine Israeli and Cypriot gas exports to Europe via an underwater pipeline to Greece.³⁴ Lebanon is concerned that the Israel-Cyprus Agreement could allow Israel to store and process extracted oil in Cyprus before exporting it to Europe. Lebanese politicians fear this would give Israel priority access to European markets, and that it could also place Israeli offshore oil infrastructure indirectly under the EU security and defence umbrella.³⁵

In terms of allowing a company operating in Israel to operate in Lebanon, the Lebanese Ministry of Trade has discretion to decide. One question that may arise is the fate of a potential liquefied natural gas (LNG) facility in Cyprus for the entire Basin, and whether sharing an infrastructure with Israel would be legally or politically viable for Lebanon, or whether Lebanon will be dependent on its own infrastructure. Alternatives, such as the Arab Pipeline Project (2003) and the project for an Iranian-Syrian Pars Pipeline Project to the Mediterranean (2011) both poses challenges, exacerbated by instabilities in Iraq and Syria.

2.3 THE LEBANESE POLITICAL CONTEXT

Lebanon is a composite country with a violent history. The political climate reflects fifteen years of devastating civil war (1975–1989), bloody events in 2005, followed by war with Israel in 2006, and an open-ended conflict in Syria. A set of key features influences political dynamics in Lebanon, which must be kept in mind when assessing the structure and functions of Lebanese politics, governance and public management.

2.3.1 Confessional structures

Lebanon is based on a confessional system whereby different religious communities are stakeholders in most decision-making bodies.³⁶ The Taif peace agreement in 1989 formalized custom that had been practiced since 1926. Fifteen personal status laws administer the affairs of these eighteen recognized sects concerning marriage, family relations, child custody, inheritance, and divorce³⁷. All Lebanese citizens have administrative records that connect them to one of the 18 confessional groups.

The actual number of Christian and Muslims inhabitants is uncertain.³⁸ Yet, the formal structures are clear. All central political bodies are based on a division of posts distributed equally between Christians and Muslims (50-50). The Parliament has 128 members. It is unicameral, and divided evenly between Christian and Muslim Members of Parliament (MPs).³⁹ The CoM has 30 Ministers, also divided 50-50 between Christians and Muslims. The ministerial posts are handed out based on a formula where election results (political) are combined with confessional requirements.

The confessional structure also permeates public administration. There are five levels of public employees in Lebanon: (1) General Directors in the Ministries, (2) Directors (president of units), (3) Head of smaller units under Director, (4) Ordinary staff, (5) Service personnel. Level (1) is dependent on confessional affiliation. The same system applies to the judiciary and the army: level one and above is distributed along confessional lines. Formally, under level one, Lebanon follows a French-like model of meritocracy.⁴⁰

Since 2000 and the Rafiq Hariri-era, Lebanese Ministers have adopted a practice of hiring political advisors, also with technical skills, to assist them in office. Although these officials are not public employees, this tendency has increased the perception of confessional influence over public administration. Attempts to rid Lebanon of the confessional structures and rely strictly on merit-based criteria for the leadership of the administration, as stipulated in the Taif Constitution art. 95 (1990) have largely failed. Developments in recent years seem to strengthen rather than weaken these structures.

2.3.2 Sectarian trends

Among the 18 confessional groups in Lebanon, three are of a considerable size – the Christian Maronites, the Sunnis and the Shia. By (constitutional) custom, the President is always a Maronite Christian, the Prime Minister a Sunni Muslim, and the Speaker of the House a Shia Muslim. Confessionalism (50-50) combined with the division between the three large groups requires 6 representatives to assure appropriate balance, 3 large, and 3 small (in which Druze-representation is counted as Muslim). The practical effect of this system is that sect-leaders are thereby granted with substantial informal political power.⁴¹

It is a widely shared view that sectarian trends are an impediment to progress of Lebanon. The sectarian system in Lebanon satisfies the needs of political elites who are not willing to make any substantial changes and prevent endeavours to enhance these institutions.⁴² However, the rising regional tensions are obstacles to their ability to proceed on the road of de-confessionalisation. Recent trends suggest more rather than less confessionalism in Lebanon, including on a formal level. Informants view the appointment of the PA as a case in point.

The confessional system and sectarian dynamic present advantages and disadvantages for the political system. It is a force providing communal coexistence, guaranteeing Lebanon's pluralism and engendering democracy.⁴³ However, confessionalism and communalism have reinforced sectarian divisions⁴⁴, and politicians manipulate the sectarian discourse to mobilize followers and maintain the clientelist system through patronage.⁴⁵ If emphasis is on the institutional structure, sectarianism hinders the emergence of democracy⁴⁶. It leads to an illegitimate system based on nepotism and despotism. Lebanese institutions thus create high levels of distrust, which hinder their legitimacy⁴⁷. The more clientelist networks permeate state institutions, the more the levels of trust decrease and Lebanese institutions struggle to deliver. This kind of political system reinforces corruption, by allowing political leaders to appoint their clientelist bureaucrats in state institutions to preserve the leaders' interests.

This sectarian system, combined with intermingling of regional powers has two noticeable, and in part contradictory, effects on the overall governance of Lebanon. It paralyzes certain parts of the political bodies. Parliament may delay voting on important issues for a decade if no underlying political consensus is reached between the sectarian branches, an issue is stuck in the system. The budgetary process has been stalled since 2005. So have a number of laws, in particular laws relating to independent bodies and oversight. However, the system is also (unpredictably) rapid in moving forward on certain issues. When there is consensus by the various sectarian groups, decision-making may suddenly go so fast that the administration is put under extreme pressure and has to operate within almost impossible time constraints. A group is formed 'the next day', the SEA is performed in 6 months (instead of 24 months). The formal procedures on the decrees relating to the PA were allegedly bypassed due to time constraints.

2.3.3 Current Government

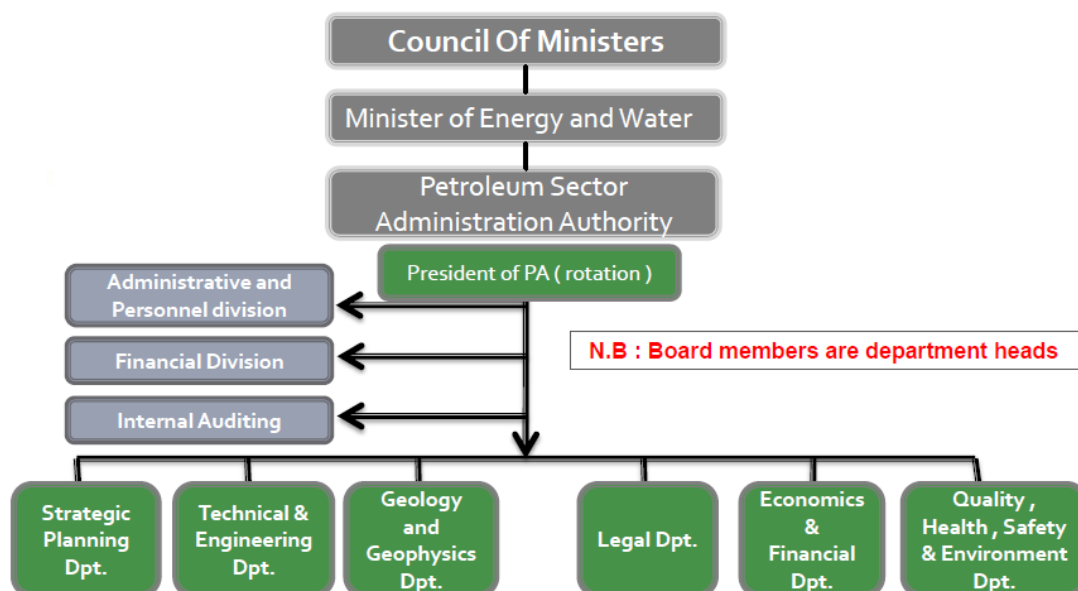
The CoM under the current Prime Minister (PM) Najib Mikati was established following the collapse of former PM Saad Harriri's National Unity Government in 2011. A growing rift between major sponsoring regional powers triggered the collapse, particularly the deepening Saudi-Iranian regional disagreement, and the Special Tribunal for Lebanon's indictment of Hezbollah members in the assassination of former PM Rafiq Harriri. The new government was formed after the defection of various MPs from the March 14 majority in favour of a newly claimed 'centrist' camp. They included the current PM Najib Mikati and his close Tripoli MPs, most notably the current Finance Minister, Mohamad Al Safadi. The 'centrist' camp was also consolidated by the support of the Druze bloc, led by Walid Jumblat, who realigned his position away from March 14. The centrist camp claimed the support of the President of the Republic Michel Suleiman. Thus, a 30-minister government of PM Mikati emerged, supported by a narrow Parliamentary majority, representing various political groups and sectarian affiliations.

In sum, Lebanon's political landscape is influenced by political parties in position/opposition, confessional boundaries between Christians and Muslims, sectarian dynamics between three (six) groups, and strong influences by regional powers in conflict with important links to certain Lebanese political and sectarian groups.

The petroleum sector in Lebanon is in its early stages. Certain structures and stakeholders are already in place. Other issues are in the process of being set up, while other elements of fundamental importance to the management of the sector have yet to be decided.

2.4 CORE STRUCTURE

The core decision-making structure in the petroleum sector may be illustrated by the following figure.⁴⁸



The core entity is made up of three governmental entities: the CoM, which currently consists of 30 Ministers representing different political and confessional loyalties (see Annex 2); the MEW; and finally the core of the Lebanese petroleum sector, the PA. The MEW consists of 3 General Directorates. The PA consists of a board of six department heads, selected on a combination of confessional and technical criteria. The CoM established the PA during its

session on March 31, 2012.⁴⁹ The Board of Directors was appointed on 7 November 2012. It has a rotating president, and each member serves one year as president, in alphabetical order. The model chosen and the selection of candidates of the PA was a highly contentious process. It led the administrative court (Shura) to remark that procedures had not been properly followed, even suggesting that the PA model was unlawful under the OPRL.⁵⁰ The PA is still under establishment. No staff or administrative personnel have been hired yet. Section 6.2 discusses these institutions in more detail.

2.5 OTHER GOVERNMENTAL BODIES

Other governmental bodies also have specific roles relating to the petroleum sector. Most important are the Ministry of Finance (MoF) and the Ministry of Environment (MoE). The Shura council (legal review body) is tasked with reviewing the lawfulness of regulations and decrees prior to adoption. Tasks linked to the sector also lie with the Ministry of Foreign Affairs (jurisdictional issues), Ministry of Defence (data keeper on jurisdictional issues), Minister of Trade (margin of appreciation in allowing companies also involved with Israel to operate in Lebanon), and more remotely, with the Ministry of Education.

2.6 PLANNED INITIATIVES

Certain initiatives that may impact the petroleum sector are pending. A governance law package proposing to establish an anti-corruption body has been prepared, but is still pending approval by Parliament.

2.6.1 National Oil Company

One major structural choice for the sector has been postponed – the question of a National Oil Company (NOC). Many of petroleum exporting countries have created a NOC. The role of the State in upstream petroleum must be carefully considered. The creation of a NOC is but one option. It does not address all questions relating to the role of the State and various conflicting interests. In Lebanon, the decision regarding whether to establish an NOC has been postponed until concrete petroleum discoveries have been made. There is also a concern that a NOC might lure talented employees away from the public sector.

The role of a NOC can vary in different parts of the world. But it is difficult to deny some level of governmental intervention regardless the role of such NOC. Recent Lebanese experiences with public companies such as 'Electricite Du Liban' in a context of high levels of sectarian contentions and spread-out of public corruption, have not yielded successful outcomes. On the contrary, the general steam that followed the 2007 Paris III Conference seems to be direction of privatization. Lebanon may not be ready at this stage to take on a reverse course and establish an NOC that may plunge it further in the political and sectarian struggle. The most appropriate model for Lebanon should be subject to careful analysis and debate where all structural and contextual elements in Lebanon are taken into account. This is a discussion where input concerning Norwegian experiences may be helpful.

2.7 RECOMMENDATIONS

Going forward:

- Lebanon must build and solidify the PA, the core of the nascent petroleum structure
- Several initiatives in the support structure to the petroleum sector, in particular independent bodies linked to environment and corruption must be discussed and adopted by Parliament and implemented.

- Lebanon must decide whether to establish a NOC.

Role for Norway:

- Norway should consider lending technical capacity and assistance and advice in order to support the solidification of the newly established PA.
- Norway should consider assisting Lebanon in clarifying all implications involved in the decision on a NOC by sharing Norwegian experiences. Particular considerations should be given to specific challenges of the Lebanese context and governance

3 ROLES AND RESPONSIBILITIES

Legislative authority for petroleum is vested with the Parliament. The CoM is the Executive Authority, regulatory authority is the Minister and the PA and the overall control is vested with the Court of Audit. Also, the MoF and the MoE have legislative functions in this area.

3.1 LEGISLATIVE AUTHORITY

Parliament has a history of being unpredictable and at times completely blocked. Its legislation is also at times regarded as 'idle suggestions to be ignored at will'. The limited role ascribed to it in the governance structure of the petroleum sector is therefore a sound model. Less reassuring is the Lebanese Parliament's role as oversight mechanism, ensuring political responsibility and holding Ministers accountable. Although Parliament is formally bestowed with the right to summon Ministers for questioning and interrogation sessions, with vested power to withdraw confidence from a single Minister or the entire CoM, it has never acted on such a jurisdiction. This is largely considered impossible as each Minister is thought to be a symbol representing sectarian interest in the government, such public summon would risk endangering the fragile social cohesion in Lebanon. Parliament is not in a position to perform the type of control and oversight of the executive branch that the Lebanese system foresees. In practice an important oversight mechanism over the executive power in the petroleum sector is thereby missing. This weakness in the governance structure makes reliance on alternative mechanisms of transparency and oversight more important.

3.2 EXECUTIVE AND REGULATORY AUTHORITY

3.2.1 The Council of Ministers (CoM)

The CoM is the highest executive body in the Lebanese governance structure. It decides on the general petroleum policy of Lebanon, the management of Lebanese petroleum resources and settles differences between concerned stakeholders. It is tasked with adopting and implementing decrees on the detailed regulation of the petroleum sector addressing specific issues.⁵¹ All decisions regarding the industry of some importance must pass through the CoM. A decision requires simple majority. The CoM also authorizes the Minister of Energy and Water to sign on its behalf the Exploration and Production Agreements (EPA) subject to the Offshore Petroleum Resources Law.⁵² No such agreements have been signed yet and the first bidding round is prepared for May 2013, with the pre-qualification opened in February 2013. On the bases of the proposal from the Minister of Energy and Water (which, in turn, is based on the opinion of the PA), the CoM sets the conditions for the invitation to participate in licensing EPA and Production Agreement and agreements between companies relevant to their prequalification as applicants.⁵³

Other Ministers are largely dependent on the technical advice of the MEW and the PA when they act as CoM. The CoM's and the PMs' ability to discipline a Minister varies with the Minister's sectarian affiliations and position in addition to political considerations. A replacement should represent the same confessional affiliation. It will be practically impossible to replace a Minister with a powerful position in the Minister's sect, unless the sectarian leaders decide. This system increases the sectarian control of Ministers, and reduces the possibilities of removal. A Minister with a strong sectarian backing will be largely immune from pressures of removal from the PM or the CoM.

3.2.2 Ministry of Energy and Water (MEW)

The MEW implements the petroleum policy and the OPRL, including granting petroleum rights. In carrying out this task, the Minister must focus on enhancing state petroleum capabilities, monitoring and supervising petroleum activities, and taking necessary measures to protect water, health, property and environment from pollution.⁵⁴ The MEW exercises tutelage authority over the PA. Reservations were expressed about the process leading to the establishment of the PA, based on an impression that the MEW was entirely in control of the process. Some have suggested that the current MEW-PA relationship undermines the independence of the PA, bringing it entirely under the political control of the Ministry (and implicitly, one sectarian group). The extreme time pressure exercised by the MEW on the PA following their appointment was seen by most informants as not very reassuring in this regard.

3.2.3 The Petroleum Administration

The PA is a body created by the OPRL. It has an advisory and executive role. Administratively, it seems to have a relative autonomy under the law, but with the Minister 'exercising tutelage authority'. Similarly, certain financial and administrative decisions of the PA are subject to the approval of the Minister as stipulated by a decree regulating the organisation of the PA. When making critical decisions, the PA will have to rely on the Minister or the CoM. Decisions of the PA are collective, based on consensus. In case of dispute between the PA members, the case will be brought before the CoM, subject to the decision of the Minister.

Concerns were raised with respect to the ability of the PA to resist political pressure from the MEW. In case of disagreement or disputes between the PA and the Minister, either party can appeal their grievance to the CoM who holds the ultimate power in deciding on potential disputes. Although the formal procedure to some extent protects the PA from political interference, it remains to be seen how it will be put into practice. The process of establishing and appointing the PA was not reassuring in this respect – where the MEW disregarded formal procedures. The process leading to the adoption by the CoM of the pre-qualification criteria seems to be more promising in this regard.

Certain concerns were also raised with respect to the appropriate background of some of the members. Notably, the PA Board of Directors is not highly qualified in the area of finance and taxation. Staff in their department may mitigate this perceived weakness. Alternatively, certain PA members' lack of experience may make the PA more dependent on close cooperation with the MoF.

While it is somewhat early to tell, it seems that PA will be the key actor in the sector. Its input is needed in most areas and provided that the composition of this administrative body provides for sufficient expertise and leadership, its role will be central. The PA is currently in the process of mapping what other governmental bodies are doing that is relevant to or overlapping with the tasks and responsibilities of the PA. In the next phase of preparing Lebanon for a potential future petroleum industry, coordination is going to be particularly

important on issues related to finance and environment. However, no procedures for inter-agency cooperation and coordination exist yet. Stakeholders in relevant ministries also suggested that cooperation with the PA would take place on an ad hoc basis.

The future role and influence of the PA will depend on its ability to build authority and integrity. Such integrity and authority may improve the standing of the PA vis-a-vis the private industry, it may increase its independence, manoeuvrability and ability to perform its task as regulator vis-a-vis the GoL, and vis-a-vis other governmental bodies with internal oversight or overlapping jurisdiction. Assistance to the PA in this first phase of implementation is therefore crucial. Cooperation should also be designed in a way that emphasises and underlines that the PA is the primordial entity and knowledge hub of the sector.

3.2.4 Other Ministries

Other ministries with relevant functions have taken steps to prepare for the implementation phase. The MoF, which will have a very important role as support and oversight mechanism in the continuation, has taken steps to institutionalize competence, establishing a cross-sectorial group consisting of 8 persons tasked with particular responsibilities for management relevant to the petroleum sector. The group is under guidance of Mrs Nader who has been closely involved with the OfD programme. No such initiatives have been taken yet within the MoE. Although the law determines the role of each Ministry, the precise roles and responsibilities of the PA and the Ministries, and the form and procedures for cooperation have yet to be determined. There is broad consensus that technical advice and a continuation of capacity building within the main government institutions that will interact closely with the PA is of importance when moving into the next phase. Note however, that clear and formal breakdown of responsibilities between ministries (audits, revenues, etc.) have not been formalized.

3.3 GOVERNMENTAL OVERSIGHT BODIES

The Petroleum sector is to some extent subject to oversight mechanisms of the Lebanese administration.

3.3.1 Bureau of Accounts/Court of Audit

The Bureau of Accounts/Court of Audit (financial judiciary) is responsible for financial control of the administration, including pre- and post-audits. The Bureau of Accounts is an administrative court, responsible for the financial jurisdiction, and the supervision of the public funds and the funds deposited in the treasury.⁵⁵ With respect to revenues, the Chief Controller transfers the transaction to the Bureau of Accounts for administrative pre-auditing. This generally includes either transaction of revenue concession when the value exceeds LL 5 million or transaction of real estate sale when the value exceeds LL 5 million. With respect to expenditures, the Chief Controller transfers transaction to the Book of Accounts for prior approval. It is envisioned that the Court of will have a central auditing role in the petroleum sector. The Court of Audit does not have a unit with specific responsibilities relevant to the petroleum sector. It is generally perceived as understaffed and the impression given to the team was that the Court of Audit would benefit from capacity building on petroleum-specific issues.

3.3.2 Administrative court system

The administrative court system is composed of administrative tribunals and the State Consultative Council (Majlis Shura al-Dawla). The administrative courts' jurisdiction is limited to matters involving or arising from administrative decisions issued by the state or any of its agencies and institutions. The administrative tribunals constitute the first judicial level whose decisions may be appealed to the State Consultative Council (Conseil d'Etat). The State Consultative Council functions as an appellate or Cassation level court to review judicial decisions made by a variety of administrative bodies and also acts as an original court for certain types of disputes such as annulment requests against ministerial decrees for abuse of power.

3.3.3 The Civil Service Board

The Civil Service Board is responsible for overseeing all decisions related to employees, administrative organization, and salaries in public administration. The civil service board is an oversight institution under the PM's office. It consists of a three-member committee, and has an employment unit and a research unit. It is tasked with improving public administration; overseeing public performance of public employees from the time they start until they leave, salaries, promotions and transfer. It also examines the needs of employment in other public administrations. Its role in relation to the petroleum sector is limited. The PA is by law subject to the control of the MEW, and is therefore not under the oversight of the civil service board. The President of the Civil Service Board was on the committee established to appoint the PA.

Relevant General Indicators		Key baseline findings March 2013
23	The national petroleum sector as a whole is subject to regular audit	Audit of the petroleum sector is intended, but has not yet been carried out. The details are still unclear.

3.4 JUDICIARY

The judicial court system is composed of three court levels of general jurisdiction. Courts of first instance, courts of appeal, and the Cassation Court. The courts are mostly divided into chambers composed of one presiding and two associate judges. The justice sector in Lebanon is weak and not independent.⁵⁶ The legislative and executive branches, as well as individuals comprising these branches, constantly interfere in the functioning of the judiciary. As a result, the Lebanese judiciary suffers from almost systematic violations of the principle of separation of powers by political officials and from the intrusion of politics in its affairs.⁵⁷ Several key informants warned that any type of arbitration with or between contractors in the petroleum sector ought to be settled outside of the judiciary system in Lebanon.

3.5 CIVIL SOCIETY

Civil society organizations in Lebanon have for decades enjoyed a variety of freedoms and protections that non-governmental organisations in other Arab countries have been denied, notably Lebanon has not required licensing and control by authorities.⁵⁸ This has made Beirut a revered place for organizations working with regional issues.⁵⁹ However, the financial crisis has had constraining effects on the donor-resources, as Lebanon is not ranked as a very poor country. Interviews conducted in Lebanon seemed to confirm that the NGO boom after 2005 did not materialize into strong coordinated civil society action.

Although still a hub for regional organizations, many of them focus their work on neighbouring countries such as Iraq, Egypt, Libya or regional dimensions.

Overall, civil society is more developed than in neighbouring countries. Media and NGOs score relatively well in international indexes.⁶⁰ Nevertheless, civil society is largely co-opted with the sectarian divides during the civil war. There is a prevailing view that sectarian politicians control civil society and weaken NGOs that seek gender and democratic reforms.⁶¹ The NGO society does not act in the concerted and coordinated way that could be expected. Increased sectarian pressure due to the regional situation also seems to reduce civil society actors' ability to perform their tasks. Several informants from civil society noted what they experienced to be a weakening of civil society organizations in Lebanon over the past years.

There is nevertheless a growing presence and interest in petroleum-related issues among NGO and research institutions. Prominent among these groups are environmentalist organizations such as ELARD-Lebanon, think tank organizations such as the Lebanese Centre for Policy Studies (LCPS) and the Centre for Arab Research and Development (CARD), anti-corruption organizations such as the Lebanese Transparency Association (LTA). International NGOs, such as Publish What you Pay and International Revenue Watch, are also increasing their engagement. (see annex 4)

While certain contextual obstacles stifle civil society, its role in the petroleum sector is nevertheless very important as an external and (semi) independent oversight mechanism.

Relevant General Indicators		Key baseline findings March 2013
26	There is capacity, independence and petroleum sector knowledge among civil society (including media) to create public debate and contribute to holding the government accountable for decision-making and performance.	There is a gap in independence and petroleum sector knowledge among civil society (including the media)

3.6 DONORS

Donors have scaled back their engagement in Lebanon over the past two years, partly for political reasons and partly in response to developments elsewhere in the Arab world. There is a strong conviction that the outcome of civil strife in neighbouring countries will eventually influence the situation in Lebanon as well. Rather than being in the receiving end of donor money, Lebanon is increasingly converting into a port for organizations being sponsored by donors, but with primary emphasis on other countries in the Arab world where working conditions are more demanding than in Lebanon. See Annex 5 for an overview of donor engagement.

3.7 GENERAL ASSESSMENT OF GOVERNANCE

The governance structure bestows the CoM with ultimate responsibility for decrees. Much power is vested with the Minister of Energy and Water and the PA. This is beneficial from a perspective of effective and timely decision-making and management. A less benign effect is that it deprives the Parliament of any meaningful oversight mechanism over the sector. Sector specific competence and insight within the PA is partly reassuring from the perspective of sound management. However, the current governance structure does raise

certain concerns about the strong position of MEW in relation to the PA and the CoM. A lack of proper understanding of the petroleum sector at the level of the CoM reinforces this impression.

The governance structure is based on a model where the regulator is not independent, but subject to political control. The current model in particular raises certain concerns about what considerations may ultimately be decisive for decision-making in the sector. The strong sectarian dimension with the regulator (PA) and the decision-making entity (CoM) may from one perspective be perceived as an advantage enabling operative decisions also when political bodies are paralyzed, offering efficiency and reliability in decision-making to the sector. However, the same mechanism raises serious concerns that sectarian interests and patronage will become heavily vested in the process. In such a case, the petroleum sector management would risk parallel decision-making structures of no oversight, falling into the same structural trap as the downstream energy sector. Equally disturbing, this model may strengthen sectarian loyalties rather than weaken them, particularly given the amount of resources potentially involved. This risks negative consequences for the formal decision-making structures of the state. In the long run it may be detrimental to its authority and ability to properly manage the petroleum sector, which again will further strengthen patronage.

The amount of independence given to the regulator has yet to be settled in practice. If the Lebanese record of independent institutions is to serve as indicator, the prospects are bleak; the risks for political pressure and sectarian dictates are high, and the potentials for a sound management of the petroleum sector correspondingly weak. However, in recent years a new model for sector management has appeared – the Central Bank. It has been able to consolidate its position as an independent regulator with authority and integrity in spite of the Lebanese context. The combination of strong qualitative performance combined with a shared understanding among Lebanese of the importance of independence in this sector was part of the explanations informants gave. This is the avenue that ought to be chosen for the PA as well. This will require emphasis on the quality and competence of the PA on the one hand, and efforts to increase the understanding by decision makers about the importance of independence for the PA in order to perform its role in a way that ultimately will benefit all Lebanese.

Civil society is largely constrained by the same sectarian dynamics, a fact that affect their work and the potential for or at least strength of joint action. Notwithstanding these structural weaknesses, there are important functions for civil society to play as oversight agents in the petroleum sector. Again, capacity building and strengthening of their understanding of the sector is of paramount importance to enhance their potential.

	Relevant General Indicators	Key baseline findings March 2013
3	Laws and regulations governing the petroleum sector are in place and in use.	The Offshore Petroleum Resources Law has been adopted, but the Petroleum Activities Regulations (PAR) remains under discussion.
4	Responsibilities for petroleum sector management are clearly defined and assigned to individuals and/or institutions.	The overall structure is in place. The PA is currently in the process of mapping the various sectors, inviting public entities with a stake or a say in the petroleum management to suggest ways to operationalize the interaction
5	Responsibility for the regulatory functions is assigned to allow for objective, fair and independent oversight, and to minimize duplication of effort.	No. The regulatory functions are not assigned to allow for objective oversight and minimize duplication. There are risks of interference, oversight is not optimal, and duplication efforts may occur

3.8 RECOMMENDATIONS

Going forward:

- Further decrees of the PAR must be adopted and implemented
- Procedures for interagency/inter ministerial cooperation must be developed
- Implementation phase must assure that the PA is provided with optimal capacities to maximise authorities and integrity.

Role for Norway:

- Norway could play an important role in assisting the PA and the core structure in the Ministries in the initial phases of implementation of the structure.
- Norway could consider providing assistance and advice in technical solutions that will assist and strengthen management by the regulator and ministries in the implementation phase.

4 PLANS AND JURISDICTION

4.1 NATIONAL PLANS AND POLICIES

A cross-sectorial committee developed a national petroleum policy in 2007, assisted by the Norwegian OfD programme. The CoM approved this policy document in October 2007, and it remains valid to date. The Minister of Energy recently announced a timeline for the next three years, in which he conceded that the plans were perhaps overly optimistic.⁶² Concern was raised by numerous stakeholders about the lack of understanding of the uncertainties involved. There seems to be an almost unanimous certainty in Lebanon that the oil and gas bonanza offshore is only years away. Key informants noted that this conviction is increasingly impacting the notion of availability of resources for planning and spending in many fields. It is also influencing dynamics on the domestic real estate and property market.⁶³ The lack of a strategic response to these effects was repeatedly underlined. The PA has a department for strategic planning that will be instrumental to overall planning.

	Relevant General Indicators	Key baseline findings March 2013
1	National development objectives and the role of the oil and gas sector in contributing to those objectives are clear and well communicated to all stakeholders	No
12	Policy-makers have sufficient knowledge, capacity and internal alignment (agreement) to set effective policy and realistic and prioritized objectives for the sector.	No

4.2 IMPLEMENTATION ACROSS NATIONAL TERRITORIES

Lebanon is divided into six districts (muhafazat).⁶⁴ Approximately half of the population in Lebanon is concentrated in the Beirut and Mount-Lebanon districts. Although all regions are confessionally mixed to a certain extent, the sectarian strongholds are located in the Mount Lebanon (Christian), south (Shia) and urban centres (Sunni) respectively. There is an on-going debate concerning decentralization of power in Lebanon. Currently, the model is a

highly centralized state-apparatus, with strong elements of sectarian patronage in the districts. In certain areas this dominance amounts to de facto control at the expense of the state apparatus, notably in the Shia south.⁶⁵ Patronage, which is defined here, as the use of public resources to secure political power, is already a large problem in Lebanon. It serves to maintain status quo and to strengthen sectarian trends, largely at the expense of the authority of state institutions.

A major question relating to the emerging petroleum sector is whether it will strengthen rather than weaken sectarian patronage and control.⁶⁶ Two main concerns are expressed with respect to implementation across national territory. Firstly, that the industry itself would depend on local sectarian leadership and protection (Chevron on a field visit was accompanied by Hezbollah guards). Secondly, that the local infrastructure and economic benefits emanating from the petroleum sector will feed into existing patronage structures.

4.3 UNRESOLVED TERRITORIAL ISSUES – LEBANESE RESPONSES

A cross-ministerial ad hoc committee headed by the Minister of Foreign Affairs has recently been established to deal with jurisdictional offshore issues. Other ministerial entities that participate are the MEW, Ministry of Defence (Navy), Ministry of Public Works and Transportation (for coastal affairs). This committee will be tasked with handling negotiations with neighbouring countries and the UN. It was emphasized that this is a technical, not a sectarian group. Lebanese authorities have received assistance from consultants from the UK and the US in this subject matter.

The Army has been involved with a team since 2009, which has been through training processes and workshops on technical issues relevant to jurisdiction. The Army is established as the data keeper, and must now be consulted in jurisdictional matters. There has been a certain capacity building in the army in this regard. Talks are being conducted between the PM, the Minister of Energy and the Chief of Command of the Army concerning the need to strengthen the navy and protect future petroleum installations. Lebanon has a comparatively small Navy. A plan was initiated in late 2012 for a strengthening of the army by 1.6 billion dollars. There seems to be political agreement that a special unit under the umbrella of the Army will have to be established to protect off shore installations in the long term.

In the short term, it has been suggested that local sectarian groups will protect the installations. PM Sleiman recently suggested an important role for Hezbollah in protecting Lebanese rights and installations from possible Israeli offshore infringements.⁶⁷

4.4 RECOMMENDATIONS

Based on the above analysis, we recommend pursuing the following priorities:

Going forward:

- Prepare agreements with neighbouring countries (Cyprus, Syria)
- Draft petroleum legislation for onshore resources

Role for Norway

- Norway should avoid providing direct advice or assistance to inter-state agreements. This capacity-gap seems to have been covered by a combination of institutional improvements and international consultants.

5 LEGAL AND REGULATORY REGIME FOR PETROLEUM OPERATIONS

5.1 INTRODUCTION

In order to facilitate a licensing round and eventual exploration and production, Lebanon has updated its legal regime for petroleum activities. In this process, Norwegian expertise has provided guidance under the OfD programme. An overview of the regulatory regime is illustrated in the following figure: ⁶⁸



5.2 OWNERSHIP OF HYDROCARBONS

The Constitution of Lebanon does not specifically state that the ownership of hydrocarbons rests with the State or the People, but it may be interpreted as providing for public ownership.⁶⁹ Ownership issue is provided for in the Offshore Law article 5: 'Petroleum Activities shall not be performed by anyone, unless authorized in accordance with the provisions of this law.'⁷⁰ Similarly, Article 4 states: '[t]itle to Petroleum Resources' provides that '[t]he State has the exclusive right to Petroleum resources and their management.'

5.3 OFF-SHORE PETROLEUM LAW AND BY-LAWS

The Offshore Petroleum Resources Law (132/2010) (OPRL) is the main legislative act regulating the upstream petroleum activities in Lebanon. In addition, there is a range of (planned) implementing decrees addressing specific issues. The key implementing decrees requiring priority can be classified into the following 4 categories:

(1) Technical Parameters

Decrees setting the technical parameters of the EPA, Block delineation.

(2) Health, Safety and Environment

Decrees setting the rules and regulations for Health, Safety & Environment requirements. Strategic Environmental Assessment

(3) Fiscal and Financial Terms

Decrees dealing with the management of revenue, fiscal and financial terms, such as state participation, royalties, cost oil & profit oil.

(4) Corporate Administration Matters

Decrees setting the requirements for foreign companies to participate in consortia, management of E&P companies, and the creation of a Petroleum Rights Registry.

These decrees are based on the OPRL. The language of these decrees is Arabic but unofficial English language translations are often circulated. Various regulatory drafts remain in preparatory stages.

Laws are passed in Lebanon according to one out of two procedures. (A) From the CoM, prepared by the Ministry, the General Director and the Minister, passing the Shura Council and finally put before the CoM. On average this process takes between 3 months to 1 year before the draft law is presented before Parliament. (B) Law proposal by 1-10 MPs, reaching Parliament at the same level. This process takes considerably shorter time, but is rarely implemented due to required political consensus that is typically provided in the CoM. The EEZ – law in 2011 was prepared according to the second model in 16 days. The OPRL in 2010 was subject to a combination of both procedures.⁷¹

The model for petroleum governance chosen is a short model law, later supplied with large decrees. Laws must pass through the Lebanese Parliament, which is an unpredictable and at times very slow process. It is highly unfit for decision-making in the petroleum sector. Decrees, however, are stipulated by laws and are limited to regulatory or enforcement matters. At the same time, the broad (confessional) representation in the CoM suggests that compromise and consensus provide the sectarian and political support for the passage of laws and regulations. This is an advantage seen from the point of view of prospects for implementation and stability.

The current petroleum framework is limited to offshore petroleum resources.⁷² The MEW is currently putting together a team for onshore issues. It has not yet been decided whether a new law should be passed or merely a new chapter introduced to the existing law. Moving to onshore would introduce a new set of challenges primarily linked to geographical location and regional (sectarian) ownership and patronage. It would present various options for Lebanon. Decisions have to be made on issues like: granting instrument (license or PSA, or even service contract), role of the State, role of the NOC (if created before this), government take (which can be very different: bonus system, tax, government share of oil and gas etc.).

5.4 AGREEMENTS WITH PRIVATE COMPANIES

The CoM has the authority to determine state royalties, area rental fees, cost oil and profit sharing percentages. The exploration and the production phases will be specified in the EPA, but may not exceed 10 years and 30 years respectively. There are two types of instruments used for petroleum activities: a Reconnaissance License and an Exploration and Production Agreement. The Reconnaissance License is granted for a period of up to three years. It is a non-exclusive license and does not give the right holder any preference or privilege with regard to obtaining any other petroleum rights.⁷³ No EPA has been signed at this stage. The final version of the Exploration and Production Agreement is subject to the approval of the CoM prior to signature by the Minister of Energy and Water. At all stages of the process, the advisory role of the PA is central.

The system that has been created in Lebanon is a mixture of a traditional concession/license and a Production Sharing Agreement.

5.4.1 Acquisition of acreage and Qualification

Exploration and Production Agreement can only be awarded to pre-qualified joint stock companies.⁷⁴ These joint-stock companies must exclusively dealing with: undertaking petroleum activities, obtaining petroleum licenses, signing Exploration and Production Agreements, activities of petroleum refining or gasification and liquefaction of natural gas.⁷⁵ Significantly, the Exploration and Production Agreement can only be granted to consortiums with three companies.⁷⁶ Companies may pre-qualify as an Operator or Non-Operator. The requirements for these roles are different and significantly more stringent for an Operator. The areas considered for pre-qualification are typical (legal, financial, technical and QHSE). The level of detail does not seem to be very high. This allows for certain degree of margin of appreciation in the decision-making. This type of flexibility is necessary, but can be perceived negatively by the general public. Again transparency in the decision-making reduces these negative perceptions. At this stage, it is unclear how these requirements are interpreted.

These Pre-Qualification criteria address the following main categories:

1. **Legal:** Joint stock company conducting Petroleum Activities as defined in Offshore Petroleum Resources Law.
2. **Financial:** Right-holder Operator: Total assets of USD 10 Billion and Right-holder Non-Operator: Total assets of USD 500 Million.
3. **Technical:** Right-holder Operator: Operatorship of at least one petroleum development in water depths in excess of 500 meters and Right-holder Non-Operator: Having an established petroleum production.
4. **Quality, Health, Safety, Environment (QHSE):** Evidence of established and implemented QHSE Management Systems.

The formal legal requirements in the application phase and the awarding phase are slightly different but essentially, the Right Holder must establish and maintain a legal presence in Lebanon for the purpose of fulfilling Right Holder's obligations. When a legal person is awarded an exclusive Petroleum Right and the legal person is not Lebanese, then the Right Holder must at least establish and maintain a branch in Lebanon. The Right Holder must also appoint a General Manager for this Lebanese branch and must notify the PA of the identity of the individual so appointed within thirty days after becoming a Right Holder.⁷⁷ The General Manager will have to set up a functioning entity to manage all aspects of rights and obligations of the branch. It must also have the capability to conduct all petroleum activities from a base located in Lebanon.⁷⁸ There are also other special conditions relating to company shares, registration in Lebanon, capital and so on.⁷⁹

Detailed procedures for negotiations have not yet been established. Formally, negotiations will take place between the Minister for Energy with short-listed qualified applicants based on the principles and criteria stipulated by Offshore Petroleum Resources Law and the invitation it. In practice, the Board of Directors of the PA will lead the negotiations on behalf of the Minister, who will then submit a report to the CoM containing the results of the negotiations with the selected applicants and a recommendation for signing an Exploration and Production Agreement.⁸⁰ In practice, the PA board of directors will likely take primary responsibility for the negotiations on behalf of the Minister, allowing the Minister to intervene in the closing stages as needed.

The requirement for having three companies as a mandatory minimum is unusual, but not unheard of. Internationally there are other examples of this, though the rationale for its introduction can be different.⁸¹ The stated reason is that as there is little or no expertise in petroleum operations in Lebanon, it was regarded to be beneficial to have companies acting

in groups. As authorities do not possess sufficient expertise in many areas, such as Costs, the idea was that companies could watch each other. This would create a certain competition between the companies, increasing incentives to find effective solutions and oversight between them. This approach is interesting and has certain rationales. However, it also carries a potential for misuse. International companies could, at least potentially, be asked to include a Lebanese partner (not a national oil company but another type of Lebanese controlled company) that might not have expertise in petroleum operations. Such a Lebanese partner may have strong political or sectarian affiliation, offering the IOCs with protection for their operation. This can potentially open up prospect for corruption and clientelist practices that undermine public welfare.

This possible problem is aggravated by the different requirements for the Operator and the Non-Operator. This distinction, however, is typical in upstream regimes internationally (for a very detailed scheme that allows different companies to act in different roles, see the Trinidad and Tobago scheme). Two options could be considered:

5.4.2 Local content

A Right Holder as well as its subcontractors must give priority to Lebanese persons in the award of contracts for construction of a facility and the supply of material, goods and services related to petroleum activities when terms and conditions offered by Lebanese suppliers are equal to their competitors. Similarly, there is an obligation to employ qualified personnel of Lebanese nationality whenever available and to organize and fund the training of Lebanese personnel associated with petroleum activities.⁸²

While quasi-absent some decades ago, local content provisions are very common today. The precise content however varies. To a certain extent these variables seem to have a connection with the national circumstances, in other cases they seem to depend on what the country had seen as most valuable. Local content is a particularly significant question for emerging petroleum-producing countries as it allows developing the economy. It helps building the national know-how and industry in both petroleum industry and more widely. Given the needs of Lebanon, the training aspects outlined above should be carefully considered.

5.4.3 Dispute Resolution

Any activities by any foreign company conducting or participating in operations or transactions related to Petroleum Activities are subject to Lebanese law.⁸³ Similarly, any contract related to petroleum activities, petroleum rights or facilities subject to offshore petroleum resources law is subject to applicable Lebanese law.⁸⁴ Lebanon has also signed over 50 bilateral investment treaties that provide for investor-state arbitration.⁸⁵ Provided that the investment is protected under a bilateral investment treaty and the company qualifies for the protection under such a treaty, the private investor can initiate international investment arbitration. Given the volatile political climate in Lebanon, the potential for an investment dispute is apparent. It would be advisable to carefully assess the potential for this and the possible consequences. Several key informants in Beirut expressed doubt about Lebanon's capacity to handle such arbitrations.

	Relevant General Indicators	Key baseline findings March 2013
6	The legal, fiscal and regulatory framework in which foreign and private operators/service companies operate is clearly defined in contracts / concessions or relevant	The framework is defined in the Offshore Petroleum Resources Law.

legislation	
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5.5 GOVERNMENT TAKE

Lebanon has a hybrid system where it has a profit sharing arrangement, but also relies on royalties and taxes. Sale or transfer of any interest in petroleum originating from a reservoir in an Exploration and Production Agreement Area is done on the basis of terms and conditions obtained between independent parties in the international market.⁸⁶ Petroleum extracted from a Reservoir in an Exploration and Production Agreement Area is split into Royalty, Cost Petroleum and Profit Petroleum. Each Right Holder is obliged to contribute Royalty Petroleum and is entitled to take Cost Petroleum and Profit Petroleum relative to his participating interest share in the Exploration and Production Agreement.⁸⁷ The method of calculation and allocation of entitlements of Cost Petroleum and Profit Petroleum is stipulated by a CoM Decree.⁸⁸

The State is entitled to royalty for all petroleum extracted from reservoirs located within its waters. This royalty can be collected either in cash or in kind proportionally as extracted in the form of liquid petroleum and gaseous petroleum. State royalty does not include petroleum that is re-injected in a reservoir within the same Exploration and Production Agreement Area. Royalty taken in kind is delivered at no cost to the State at the point of delivery. The royalty for gas is different than for liquids.⁸⁹ There are no signature bonuses and no production bonuses. Presumably, the idea behind this choice is to attract IOC's to the area. This can suggest that this aspect is subject to change in some future bidding round. In terms of rental fees, the Right Holders has to pay a progressive area fee (per square kilometre) to the State for the area covered by an Exploration and Production Agreement from the first year following the expiry of the exploration phase initially stipulated in the Exploration and Production Agreement.⁹⁰

Special participation is reserved for the State in petroleum activities. Its share is stipulated in the Petroleum License or the Exploration and Production Agreement, and is determined according to a CoM Decree to this effect.⁹¹ There is currently no Lebanese national oil company but there is a possibility to create one if necessary and after promising commercial opportunities have been verified.⁹²

Petroleum activities and petroleum rights, which are conducted in Lebanon and its waters, are subject to Lebanese tax laws.⁹³ At least corporate tax, dividend tax and stamp duties are levied. The taxation scheme is relatively stable and the last amendments of income tax are from 1998.⁹⁴ The exact share of royalty, taxes, rent, etc. has not been formalized by the GoL and still in development stage to be negotiated in the final EPA.

The Lebanese revenue system is sensitive to income generation before government starts to take its share. Unlike some other areas, it is not heavily front-loaded. The exclusion of a signing bonus is positive in this respect. The state starts to take its share only once production has started. This also means that the expectations of the public have to be managed. Clear and easily available information to both the general public and various groups should be made available.

5.6 UNIQUE ELEMENTS IN COMPARATIVE PERSPECTIVE

Petroleum producing states have vastly different regimes in place. Some, like the new Petroleum Act 2012 of South Sudan or the 2011 Sierra Leone Petroleum Act are detailed and extensive.⁹⁵ Others have a very short law complemented by more detailed host government contracts or decrees or regulations. Lebanon has opted for the second possibility and has a

relatively short Offshore Petroleum Resources Law that is then complemented by more specific and more extensive regulations and agreements. In comparison to some other jurisdictions in very established petroleum areas,⁹⁶ these are still relatively moderate in length. The exact number of these regulations and decrees is unclear at this stage.

Some of the differences between the systems are: negotiability, facility to change, and flexibility. These are all questions that a jurisdiction without much history in petroleum production must consider. On the other hand, negotiability may create the possibility for questionable practices, like corruption, and the facility to change the regulations (compared to law or the constitution), creates uncertainty as it is more sensitive to changes in the political balance of power.

As always is the case, there are other legislative instruments that apply to petroleum operations in Lebanon. General environmental laws, tax laws, import and export regulations and so on will apply to this area of economic activity.⁹⁷ In addition, there are numerous international law instruments that apply and impact operations in this area. United Nations Law of the Sea Convention or bilateral investment protection agreements are but examples of this. It is paramount importance that the impact of these law and instruments are examined in detail. It seems that the tax laws have been analysed thoroughly and changes are taking place. For others, something has been done but it seems that a systemic evaluation of the interoperability of existing laws with the new petroleum legal regime is missing. Informants in particular pointed to company and anti-discrimination legislation.

5.6.1 The granting instrument: license or contract

Granting instruments or host government contracts are contracts concluded between a host government authority, government, ministry or NOC typically, and an exploration and production company. These instruments can be categorized as licenses and concessions (old and modern type of concessions), production-sharing agreements, service agreements and participation agreements.

The hybrid model is widely used, containing elements from two or more of these four general categories. Also, many countries use all or some of these different schemes.⁹⁸ Sometimes the legal label and the actual content do not follow the rough categorizations.⁹⁹ Therefore, it is possible to argue that any contract arrangement can achieve any goal set by a government or IOC. The main issue to be considered is not the title of the agreement but rather the content of it. As previously mentioned, most titles do not reflect the reality of the agreement. For example a concession type should not refer to cost recovery. So the key concern for the government and investor is in the details.

5.7 RECOMMENDATIONS

Based on the above analysis, we recommend pursuing the following priorities:

Going forward:

- Prepare onshore petroleum law
- Finish all PAR
- Review of law in adjacent areas (company law, investment law)
- (Prepare JOA, AA, Unitisation agreement)

Role for Norway:

- provide regulatory assistance in remaining issues
- offer advice on streamlining the legal framework

6 FINANCIAL ISSUES

6.1 MANAGEMENT OF PETROLEUM REVENUE

An increase in wealth in Lebanon could feed into sectarian patronage, effectively weakening the state apparatus. The OPRL, Article 3(2), provides that the net proceeds collected or received by the Government from Petroleum Activities or Petroleum Rights will be placed in a sovereign fund. At the time of writing, the fund had not yet been created; however, the institutional details and the overall structure are already under discussion. The current idea is to propose a model based on the Norwegian model. An important issue in this respect is determining the mechanism through which to select individuals to manage the fund. Informants suggest that this subject will be more sensitive than the compromise on the PA.

According to Article 3(3) of the OPRL, the fund, the rules for its specific management, the principles of investment, and the use of proceeds will be regulated through a specific statute. Thus, a major goal of the statute would be to establish 'clear and transparent principles for investment and use of petroleum proceeds.' Specifically, the Offshore Petroleum Law provides that the objective of the statute regulating the fund is to 'keep the capital and part of the proceeds in an investment fund for future generations, leaving the other part to be spent according to standards that will guarantee the rights of the State and avoid serious, short or long-term negative economic consequences.'¹⁰⁰ The main motivator behind the fund is to promote transparency by providing all Lebanese with easily accessible information on the revenue the Government obtains from the petroleum sector each year. Along the same lines, one prevalent idea is to separate income generated from petroleum revenues from the general budget. Only tax (20-23% of the income) would be part of the Lebanese budget. Hence, about 78 % would be directed to the fund. Avoiding sectarian competition over the funds might best be achieved in long investments that benefit general welfare of the population. One suggestion is for this to be done in a process similar to that of the Municipal Funds.

6.2 PUBLIC FINANCE

6.2.1 Public budget

There are several concerns linked to public finance in Lebanon. The process has been paralysed since 2005, and there are concerns about the transparency and inclusiveness of the existing budget. According to a 2008 UNDP report, 'approximately 81 public institutions are not included in the public budget. As a result, for these institutions, there is no indication of where and how money is spent.'¹⁰¹ Moreover, Lebanon continues to maintain a relatively high public debt – approximately 47 billion USD at the end of 2008 – fuelled by the cost of reconstruction following decades of civil war.¹⁰²

6.2.2 7.2.2 Oversight and reform

There are three agencies formally charged with evaluating the integrity of Lebanon's public finances: the Civil Service Board, the Central Inspection Commission, and the Bureau of Accounts.¹⁰³ The effectiveness of these organizations remains disputed, with critics charging that these watchdog institutions suffer from a lack of political independence.¹⁰⁴ In terms of

individual ministry reform efforts, the MoF leads a reform programme geared towards improving efficiency in public procurement, taxation, customs assessments, and debt management, among other challenges.¹⁰⁵ This reform programme receives funding from international donors, including the World Bank and the EU.¹⁰⁶

In 2009, Lebanon joined the Capacity Building for Sustainable Public Procurement in Developing Countries, under the Swiss government and the United Nations Environment Programme (UNEP), supported by the European Commission, Switzerland and the Organization of Francophone countries.¹⁰⁷ This activity falls in line with the Lebanese MoF's aim to improve public procurement practices by developing unified public procurement standard bidding documents and specialized training programmes.

6.2.3 Redistribution and anti-poverty initiatives

Income-related indicators have worsened considerably since the mid-1990s, and income inequality remains a challenge. Poverty is more prevalent among agricultural workers and unskilled workers in services, construction and industries, many of whom are illiterate or semi-illiterate.¹⁰⁸ In 2012, the CoM raised the minimum wage for all employees to LL500 000 (\$333) per month as of 2008.¹⁰⁹ However, concerns have been raised about the lack of a more comprehensive approach to development. Wages increases benefit only a particular segment of the population, and increase the risk of inflation. Between 2008 and 2011, total inflation in Lebanon reached 17%, attributed mostly to rising costs of transport, education and healthcare.¹¹⁰

Half the population is below the age of 29, and 24% per cent live at or below the poverty line.¹¹¹ The CoM launched a \$28 million National Poverty Targeting Program to provide direct support to the neediest in 2009, (PCM, 2012), in an attempt to avoid direct cash transfers. The CoM implemented a subsidy program involving health care, schooling and electricity. Individuals can apply for subsidies through a rigorous screening program that involves four line ministries. There are serious concerns about whether the Targeting Program can achieve universal coverage, and poverty measures following program implementation are inconclusive. In response to criticism about what was widely perceived as a piecemeal approach to development, the CoM prepared a 7-point action plan for social and economic reform in 2012.¹¹² The objective is to produce a meaningful and effective reform package.

6.3 REVENUE MAXIMIZATION

6.3.1 Framework for foreign direct investment (FDI)

The framework for FDI derives primarily from the Investment Development Law 360, which was passed in 2000 and entered into force in 2003.¹¹³ The Lebanese currency is pegged to the dollar.¹¹⁴ The Law offers a variety of incentives to encourage the still meagre flows of foreign direct investment, and also arranges for the Investment Development Agency in Lebanon (IDAL) to serve as a 'one-stop shop' for foreign investors.¹¹⁵ The Law additionally empowers IDAL to negotiate 'Package Deal Contracts' for foreign investors.¹¹⁶ The Investment Development Law's incentive scheme varies by region. Zone A comprises the Lebanese shoreline; Zone B, the mountains; and Zone C, the Bekaa.¹¹⁷ For all three regions, the Law requires foreign investors to employ two Lebanese nationals for every foreign national.¹¹⁸ Investments in Zone B benefit from an additional incentive: a 50% reduction in the applicable income and dividend tax rate over the first five years of the investment.¹¹⁹ For Zone C, FDI is exempt from income and dividend taxation for the first ten years.¹²⁰

In terms of strategy, Lebanon has focused primarily on attracting FDI from the broader Arab region, and from well-connected members of the Lebanese diaspora.¹²¹ Although intermittent cycles of conflict have complicated the investment climate, Islamic finance in particular has grown substantially in the 2000's.¹²² Overall, the World Bank 2013 'Doing Business in Lebanon' report ranks the country at the average for the Middle East and North Africa on investor protection.¹²³

6.3.2 Finance and investment

Lebanon has enjoyed a reputation as the 'Switzerland of the Middle East' due to its strict banking secrecy laws and absence of capital controls.¹²⁴ Lebanon also pegs its currency to the dollar. Moreover, several of the largest international financial institutions maintain offices in Lebanon.¹²⁵ As a result, obtaining financing does not appear to pose any significant hurdle to foreign investment.

Relevant General Indicators		Key baseline findings March 2013
9	The government take system maximises national revenues and promotes profitable investment.	Calls have been made for the budgetary process to be more inclusive and transparent.
10	The fiscal policy supports a stable development of the economy both in the short and the long run.	No. This area still needs much preparation.
11	Where there are policies for maximizing national value creation from the petroleum sector beyond generating taxation revenue these policies are realistic and promote diversification of the economy.	Not yet.
22	The revenue management system facilitates aggregate fiscal discipline.	Not yet in force.

6.4 RECOMMENDATIONS

Based on the above analysis, we recommend pursuing the following priorities:

Going forward:

- Draft statute on the management of the petroleum fund
- Integrate state income and revenues within a sustainable National Development Plan
- Review taxation law and introduce amendments related to petroleum activities

Role for Norway:

- Consider providing advice to the MoF in drafting decrees for the petroleum sector
- Consider providing advice on the process of creating a petroleum fund law
- Consider assisting the MoF and the PA on issues related to taxation and auditing
- Norway could assist in disseminating sector-specific knowledge, to instil realistic expectations in the Lebanese public in general and decision-makers in particular

7 SUSTAINABLE DEVELOPMENT AND RISK MANAGEMENT

7.1 ENVIRONMENT

Lebanon has a long way to go to safeguard the environment, increase protection of its natural resource base and enhance its ecosystems. On the Yale 2012 Environmental Performance Index, Lebanon ranked 94 of 132 countries (score 47/100).¹²⁶

All major multilateral environmental agreements, some of which carry heavy reporting obligations, have been ratified by Lebanon.¹²⁷ On the domestic side however, Lebanon has been slow in passing legislation and implementing measures. The Environmental Law (444/2002), a framework law requiring up to 36 application decrees to make it implementable (similarly to the OPRL model), was approved in 2002. The first decrees were issued a decade later, in May 2012, establishing a National Environmental Council (first draft 2005), and decrees concerning the Environmental Compliance for Establishments (first draft 2001-2002), as part of a legislative environmental package.¹²⁸

In general, environmental management and protection in Lebanon suffer from low political priorities, a phenomenon that has impacted its current preparedness for petroleum activities. Petroleum activities are subject to the general environmental protection in the Environmental Law to the extent that they are conducted in Lebanese territorial waters, waters of the Lebanese Exclusive Economic Zone and continental shelf.¹²⁹

Specific environmental requirements under the ORPL require the State to carry out a Strategic Environmental Assessment (SEA) prior to initiation.¹³⁰ Such a study was commissioned in 2011, and Phase 1 was completed in April 2012. The SEA report in 8 volumes outlines future steps, recommendations to companies and identifies the most vulnerable areas. Unlike the Environmental law, where implementation has been extremely slow, the CoM immediately, providing a time frame of 6 months instead of 24 months, which is common practice, commissioned the SEA. According to key informants, the latter timeframe would be necessary to do a proper SEA for Lebanon, and the process raises serious concerns about important gaps of baseline data in the SEA. Informants underlined the urgency of the PA following up this issue without delay.

The administrative structures responsible for environmental protection are still weak. There are no dedicated enforcement entities. Monitoring responsibilities with the Ministry of Interior have caused controversy, and the ordinary police and the Judiciary, with discomfoting results, handle cases. The judiciary does not have environmental or petroleum sector competence. An initiative concerning an environmental prosecutor was recently adopted by the CoM and is pending before Parliament. Environmental police is an issue entangled with broader political and sectarian questions.

Ministerial capacities for environmental management are also weak. The Ministry of Environment is heavily understaffed and overloaded with un-related issues. It is a centralized office with 30 employees with technical skills (of a total 68). Transfer of files is still manual. A system has been set up but staff remains to be trained. The ME does not have a unit dedicated to the petroleum sector. Its capacity in petroleum related issues consists of a few dedicated individuals.

There is a shared view among all key informants that environmental issues are under-prioritized at all decision-making levels. However, a positive trend is noticeable over the

past year; staff in the ME has increased by 14, the Environmental Impact Assessment (first draft 1995) and the Strategic Environmental Assessment (first draft 2004) were approved by the CoM in May 2012, and an environmental legislative package pending before Parliament are all positive signs that progress is underway. Moreover, the EU is funding a €8 million program over 4 years initiated in 2012 of *Support to Reform of Environmental Governance* (StREG) aimed at improving the environmental performance of the Lebanese public sector by reforming environmental governance through four complementary angles: legal, administrative, financial and technical. The beneficiary of the programme is the MoE.

For the time being, the ME has clearly insufficient institutional capacity and competence to manage a petroleum sector. Key informants also expressed the need to streamline the legislative development process for environment issues. There were also calls to expedite review procedures by the various government agencies. Strengthening collaboration and formalize cooperation between the MoE and the PA is crucial in this respect. Environment is an area where the impact of technical assistance, capacity building and efforts to strengthen management specifically oriented towards the petroleum sector are likely to have a huge impact.

7.2 RISK-MANAGEMENT

The SEA contains a chapter on emergency preparedness, but it remains to be endorsed and implemented. The Agency for Relief and the Civil Defense are intended to have roles in this matter, but their respective roles remain unclear. A National Emergency Response Committee was established in 2010.¹³¹ The committee is tasked with developing a general framework for disasters, a detailed contingency plan, and an emergency management plan. The committee also manages oil spills. The committee has met several times amending existing legislation, but according to informants the committee has not met for a long time. The Swiss Embassy has dedicated funds (\$800000) to strengthen disaster risk management in Lebanon.

Key informants identified emergency preparedness and risk management as a key area that needs improvement preparing for an active petroleum sector.

7.3 CAPACITY BUILDING

Although Lebanon does not have an extractive industry of its own, it has a substantial diaspora (approximately three times its domestic population). Many Lebanese living in the Gulf or in Western countries work in the private petroleum sector. An informant involved in the process of selecting the PA estimated that approximately 60-70 % of the applicants were expats working in the Gulf, as engineers or professors.

This fact offers Lebanon with a situation somewhat unusual for an emerging petroleum producer. It has a substantial pool of human resources among its citizens with various skills specifically relevant to the petroleum sector. However, these capacities have various backgrounds, although the large majority is working in the Gulf. Equally important, they have mostly experience in the private sector, and not with PA or management of the sector.

Average years of schooling in Lebanon is 7,9 years.¹³² An estimated 44% of university students are enrolled in the Lebanese University (Lebanon's only public university) and 56% enroll in any of the country's 36 private universities.¹³³ There are 9 scientific centers outside of the universities (2003, AHDR) and several universities now offer courses related to the petroleum sector. While Lebanon probably is home to some of the best institutions of higher education in the entire Middle East, its educational system is suffering from certain weaknesses. The sectarian dimension must also be taken into account when assessing the

educational system, as sectarian leaders enjoy substantial freedom in managing their private schools and universities (Harik 1999). Currently, there are forty-eight Lebanese University campuses in Lebanon. Politicians manipulate their ability to open new campuses to serve sectarian privileges without considering educational standards. (El-Amine et al. 1999).

Another feature is the commercial dimension. Higher education is largely privatized. MBAs and masters are given at a total of 40 universities. High tuition-fees and low standardized requirements have made higher education into a lucrative business. An advisory board appointed by the Ministry of Education recommends or rejects applications for programmes. However, subjective elements, confessional affiliations and a certain corrupt propensity were highlighted by several informants. A future challenge is that the educational system appears to be very apt for the purposes of petroleum sector, and *too* eager to engage to earn sectarian influence and high tuition fees, risking an uncontrolled proliferation of courses, at the expense of quality, hampering the creation of a competence hub.

Unemployment among university graduates is high (22.1% in 2007 – Index Mundi, 2012), indicating that jobs are scarce and that university programs do not match market requirements. In the petroleum sector it is very important to synchronize university programs and the (potential for) labor in the petroleum sector, and to provide for skills matching the need of the public and private sector.

Several key informants – including the PA – called for a coordinated plan in the educational sector to strengthen certain capacities, and employment skills, particularly linked to sustainable management. Emphasis should be on creating hubs of competence, and contrary to the prevailing tendencies in higher education, emphasis should be on quality rather than quantity. Given the relative size of Lebanese human resources with experience in the private sector, particular emphasis should be given to educational programs targeting technical skills and public management such as petroleum economics, geological subjects, legal affairs, engineers.

7.4 THE GENDER DIMENSION

The public sector in Lebanon is gender friendly compared to many Arab countries. Still, Lebanese women have been confronted with various institutional and cultural barriers. 1% of Parliamentarians are women, no female Minister (among 30), and only handfuls are either General Directors or CEOs. A relatively high number of well-qualified and entrusted females are found in public administration. However, a persistent pattern seems to be that the more influence and (formal) power a position yields, the fewer women are found.

The petroleum sector is no exception. Many participants on the Norwegian programme were females that have acquired important knowledge and capacities relevant to the sector. The relevant candidates from the Norwegian programme were excluded by age-requirements in the decree by the CoM.¹³⁴

The tendencies in public administration towards reliance on political advisors to the Minister seem to undermine the influence of females in the administration. Advisors to the Ministers – the new class of technical and political consultants working for a specific minister and leaving along with him as he changes political post, and field, are primordially men (unofficial estimate by informants were that 1 in 5 were females).

7.5 RECOMMENDATIONS

Based on the above analysis, we recommend pursuing the following priorities:

Going forward

- Drafting environmental regulations
- Improving inter-ministerial coordination and diligent follow-up to increase expedience in the drafting process
- Planning and implementing coordinated educational programmes that answer the need of the sector.

Role for Norway

- A suggested role could be envisaged for Norway in lending expert advice and assistance to developing petroleum sector relevant education that will strengthen sustainable public management of the sector.
- Assistance and advise in technical and regulatory matters including HMS to environmental authorities

	Relevant general indicators	Key baseline findings
7	The national petroleum inventory provides a good basis for the long term planning of the petroleum sector, and petroleum resources are managed efficiently and with an aim to minimise negative economic impacts on other sectors.	Not yet
8	Effective processes and incentives are in place to ensure that the development of petroleum infrastructure and its operations do not result in long-term damage to the environment, unacceptable health, safety and working conditions, unacceptable social impacts or other human rights violations.	No. The processes and incentives are not in place or are too weak.
11	Where there are policies for maximising national value creation from the petroleum sector beyond generating taxation revenue these policies are realistic and promote diversification of the economy.	Not yet.
31	Environmental and strategic impact assessments and decisions to issue permits (for instance pollution permits) are subject to a consultation process and made publicly available.	

8 ACCOUNTABILITY AND TRANSPARENCY

8.1 INTRODUCTION

Lebanon is known for its 'inexhaustible capacity for corruption'.¹³⁵ Corruption is conventionally defined as the misuse of public or entrusted authority for personal gain.¹³⁶ Compared to its level of education and democratic structure, the pervasiveness of corruption in Lebanon is very high. International Transparency ranks Lebanon 128 (out of 185) in their corruption perception index of 2012. Even in the Arab world this is a poor record (14th place).

According to the World Wide Governance Indicators, Lebanon persistently scores poorly on a number of governance issues (see annex 3). Notwithstanding a marked improvement in regulatory issues since 2010, there is a persistent pattern in the Lebanese governance structure of reluctance towards independent oversight bodies; Independent Civil Aviation authority set up under Minister of Transportation in 1998 (never put in place); reform of administrative courts in 2000 (not yet implemented); telecom regulatory authority statute in 2002 (brought back to Ministry); Ombudsmans- law adopted 2005 (never implemented) - to mention only a few. A desire to avoid oversight seems to be reinforced in Lebanon by fears that other actors in the informal power structure will seize control of such a body, thereby endangering the delicate balance of power between the different groups. The resulting lack of appropriate independent control mechanisms produce an environment deprived of oversight where various kinds of corruption proliferate.

Corruption pervades Lebanese institutions, having its own mechanisms for stealing public money and gaining more illegitimate profits.¹³⁷ The system "too often serves as a bulwark for corruption, precluding the prosecution of sectarian leaders for corruption-related perpetrations, as any charges are effectively portrayed as assaults against the sectarian community of the culprit".¹³⁸ These leaders utilize the confessional system to protect themselves and maintain more interests, thus sectarianism is used to impede serving the public interest and maintains corruption.¹³⁹

According to a UNDP/LTA report on anti-corruption strategies in Lebanon, the areas most vulnerable to corruption in Lebanon are transaction processes, tenders, acquisitions, public properties, public money, privatization, recruitment and finally appointments.¹⁴⁰ The forms of corruption involve fraud, cheating, theft, bribery, embezzlement, mishandling of public money. An element that is common in Lebanon is what is referred to as *wasta* – using connections and influence in order to get things done outside of normal procedures. Another prevalent feature interwoven with confessional power-structures is clientilism, the personal relationships that link patrons and clients together in a system in which jobs, favours, and protection are exchanged for labour, support, and loyalty. Nepotism in its Middle Eastern version, linked to tribal and large family conglomerations adds yet another layer to the pervasiveness of corrupt practices in Lebanon.

It is common ground that policy in resource-rich countries should be less about macro-economic management and more about institutions to prevent rent seeking and patronage, and about giving the right incentives to players in the resource sector. A complicating factor in Lebanon is the inability of the current political system to introduce and to effectively implement independent institutions. The incentive-system is deficient, as it largely includes actors along lines different from those common to good governance structures. Lebanon scores poorly on corruption perceptions – lower than most extractive industry countries even before getting into the industry. If management of the petroleum sector follows the patterns and institutional practices associated with general public management, the

likelihood is high that the petroleum sector will exacerbate and fuel rather than calm these structural deficiencies.

Major attention should therefore be given to ways of separating and insulating management of the petroleum sector from the overall public management structure in Lebanon. Three elements are important in this regard. Firstly, the core structure in the petroleum sector must become as independent as possible. Secondly, internal and external independent oversight mechanisms must be strengthened. Thirdly, oversight of the petroleum sector is only possible if transparency is increased.

8.2 INDEPENDENCE OF THE REGULATOR

The amount of independence given to the regulator has yet to be settled in practice. Initial indications of the performance of the PA thus far are fairly positive. If the Lebanese record of independent institutions is to serve as an indicator, the risks for political pressure and sectarian dictates are high, and the potentials for a sound management of the petroleum sector correspondingly weak. However, in order to secure independence for the PA – given its structure and context – it is of utmost importance that the PA is assisted with appropriate support and know-how in the implementation phase. This is when its authority and integrity will be established, or not.

An important element for independence is the staffing process. The PA Board of Directors have been selected by CoM, subject to a selection process of 8 months. The process was made according to a procedure that was established on a one-time basis. A committee was established consisting of the Minister of Energy (a Maronite), president of the Civil Service Board (a Sunni) and the Minister in charge of OMSAR (a Shia). Criteria were set, and 400 applicants met the initial criteria, 70 were interviewed, and three candidates based on the same sectarian affiliations were selected for each department of the PA. Three candidates for each post (18 in total, 3 from each sectarian affiliation) were then presented to the CoM for selection.

PA members cannot be removed by the MEW. This is not very different from ordinary procedures in public administration. If a member of the PA quits before the 6 – year term is finished, the MEW proposes a new candidate to the CoM. After the 6-year tenure, the MEW may request a renewal of the positions. There seemed to be no clarity on the procedure for selection of the PA members after 6 years. The CoM will make the decision via a decree.

Staffing in the PA-administration will be dependent on advisory opinion by the PA. Hiring based on annual contracts is made by the MEW. The same goes for the hiring of consultants. At this level of management, technical qualification and experience is decisive.

While the formal procedures are reassuring, the process of concluding which 3 candidates should pose from each sect was less so. This process has not come across as transparent, arousing suspicions about strong sectarian influences at the heart of the petroleum structure.

8.3 ACCOUNTABILITY AND OVERSIGHT MECHANISMS

8.3.1 Governmental oversight mechanisms

The Bureau of Accounts, entrusted with financial regulation, is still struggling between outdated and valid control mechanisms and is trying to pin down which government agencies should fall under its jurisdictions.¹⁴¹ Key informants suggested that the Court of Audit would need to be strengthened.

Over the past two decades numerous draft laws have been proposed or even prepared that grant to the judiciary the status of an independent authority, with improved safeguards. One of their common elements concern the reform of the High Judicial Council, which is given an enhanced role in overseeing justice affairs, including with regard to administrative and financial matters. They also share the fate of not being passed.

8.3.2 Media

Unlike the rule in other Arab countries, where media traditionally is state owned and controlled, the Lebanese mass media services (newspapers, radios and TV) are run by private organisations.¹⁴² Political parties are also allowed to issue newspapers in Lebanon. According to a UNDP report from 2008 some media outlets are diametrically manipulated, owned, or subsidized by influential politicians or business people, the constraints inflicted on the freedom and liberty in expression do not allow these organizations to fight and expose corruption, within the society or the administration. Lebanon also dropped eight places on an international Press Freedom Index from 93 to 101 out of 179 countries for 2012.¹⁴³

Lebanese civil society and media have played an important role in combating public corruption through whistle blowing practices, most notably in recent campaign related to health issues and expired pharmaceutical medicines. The media has been covering the petroleum industry with interest, and been an arena for certain heated debates concerning management. However, a shared notion among key informants was that the media is in need of capacity building in order to have a proper understanding of the mechanisms and dynamics involved in the petroleum sector. A selected and targeted engagement with key media outlets across the political and sectarian board would be an important measure to improve the quality of media coverage of the sector. This is even more important given the general weakness of oversight mechanisms in Lebanon. A more informed media could also assist in improving the general understanding by decision-makers.

8.3.3 Civil society

Civil society in Lebanon has yet to develop the skills necessary to fulfil its anticipated role in promoting transparency. The sector still suffers serious problems in its structural and functional bases. A combination of internal NGO and government constraints have hindered the ability of civil society to act envisaged, and NGOs have to some degree institutionalized and reinforced divisions within Lebanese society (UNDP Report 2008).

Few Lebanese NGOs are specialized in transparency issues. Publish What You Pay (PWYP) are located in Lebanon, using it as a hub to run programs in other countries. In 2012 PWYP started to work in limited ways with Lebanon as targeting country (but not as priority due to lack of optimism). International Revenue Watch and Transparency International are in the inception phase, running certain limited projects. The Lebanese Centre for Policy Studies is

launching a two-year research program on the petroleum sector, which has the potential to have an impact.

8.4 TRANSPARENCY

8.4.1 Information Transparency and Reliability

A UNDP report from 2008 notes that ‘there is a deficiency in transparency at all levels. As access to public information is limited and not explicitly protected in legislation, the chances to misuse and manipulate information of interest to the public are likely to increase. Several informants expressed that emphasis in the sector until now has focused on governance, but almost nothing on transparency. The feedback from international oil companies is that transparency is a must for Lebanon.

The lack of a law assuring access to information has led to major problems in government contracting, where the website that is supposed to advertise government tenders is broken and only 25 % of contracts are awarded based on competitive bidding.¹⁴⁴ According to key informants, it is also persistently relied on to prevent proper insight into public processes.

The initial phase of the Lebanese petroleum sector has had a mixed record with respect to transparency. Staffing of the PA and parts of the drafting process of decrees has received some criticism for lack of transparency. However, comments following the establishment of the PA in November 2012 have been more appreciative. Signs are positive, and the performance so far of the PA seems to raise hopes of a professional entity.

Slightly different challenges regard information flow between the different ministries, which is poor. This is in part explained by a lack of appropriate institutional arrangements, which may be exacerbated by the underlying political and sectarian control over different ministries. This lack of information flow is combined with a persistent problem with information leakage. Several key informants with access to the private sector confirmed that they had access to information that should not yet be available.

A new draft law on access to information is pending before Parliament. If adopted, this may have important positive impacts for transparency in the petroleum related issues as well.

8.4.2 Specific anti-corruption measures

Lebanon has been the target for numerous attempted anti-corruption measures. Since 1992, the government has been implementing initiatives and launching programs to reform state administrations. A National Integrity Steering Committee was established as a semi-governmental body to stamp out corruption in Lebanon. In 1994, the Office of the Minister of State for Administrative Reform (OMSAR) was formed to coordinate efforts to rehabilitate the Lebanese administration and carry out long-term reform initiatives. Drawing support from a wide range of international donors including the World Bank, the Arab Fund for Economic and Social Development, the European Union, and the United Nations Development Program, OMSAR has consistently been launching anti-corruption initiatives. These activities include the series of Citizen’s Charter, Code of Conduct for Civil Servants, the various laws on Access to Information, Job Classification, structural reorganization of specific ministries, simplification of administrative procedures, the Ombudsman Law (whose implementation has been delayed due to political reasons), and the Anti-Corruption Expert project.¹⁴⁵

In 2004, UNDP published a survey on anti- corruption initiatives in Lebanon updated by the Antoun-report in 2008, both of which had devastating conclusion.¹⁴⁶ Lebanon’s ratification

of the United Nations Convention Against Corruption in October 2009 has pushed the government to begin to create a network of anti-corruption oversight bodies. Draft legislation for a freedom of information act, anti-corruption agency and Ombudsman are currently awaiting legislative debate and approval.¹⁴⁷

Renewed efforts to introduce legislation are underway. An inter-ministerial and interagency anti-corruption coordination committee has been established under the Office of the Prime Minister in response to the UNCAC obligations. They include a number of agencies, institutions and ministries, and are tasked with drawing up a policy to fight corruption. A package on governance was adopted recently by the CoM and is pending before Parliament. The package contains a law on Access to Information, the establishment of a Corruption Commission, increased whistle-blower protection and improved regulation regarding illicit wealth. The Corruption commission is intended to have independence and investigative authority, referring cases to other judicial bodies. The prevailing idea among policy makers also seemed to be that the primary constituency for the new governance package was not Lebanon, but the international companies.

8.5 THE PROMISING PRECEDENCE OF THE CENTRAL BANK

Despite Lebanon's poor records with internal there is a noticeable improvement in the regulatory abilities of Lebanon in 2010 and 2011 compared to earlier years in the 2000s (see annex 3). Three developments are noticeable in this regard. Firstly, Lebanon's ratification of the UNCAC in 2009, and subsequent efforts to establish appropriate mechanisms to comply with its obligations. Secondly, Lebanon's on-going efforts to strengthen implementation and compliance mechanisms in specific areas, such as environment and with the judiciary. However, the potential for these mechanisms to be established, be robust and have the envisaged functions is rather low. Thirdly, the example provided by the Central Bank of Lebanon, which has set an important precedence of independence over the past decade.

Recent experiences from the Central Bank allows for optimism in the sense that understanding by major stakeholders of the importance of an independent entity for the proper working of the system is envisaged in the current context in Lebanon. This indicates a willingness and ability in the Lebanese community to accept mechanisms intended to increase confidence and reduce malpractice when these mechanisms are properly communicated. Lebanon decision makers are in part well versed in financial matters, and appreciate the advantages of an independent financial regulator. This encouraging precedence should be relied on in attempts to convince the Lebanese about the importance and possibilities for an independent regulator. A red line seems to be the informal balance of power between sectarian entities. As long as these lines are taken into account, there are important potentials for improvement and critical need for support to the regulator in the early phases of implementation.

	Relevant General Indicators	Key baseline findings
21	Mechanisms are in place to ensure that industry participants in the sector work in compliance with national and international laws, regulations and contractual obligations.	Weak.
25	There is capacity and petroleum sector knowledge within the legislature to debate proposed petroleum legislation and to hold the government accountable for	The legislature does not have sufficient petroleum sector knowledge to perform this role

	decision-making and performance.	
27	A simple, comprehensive guide to the petroleum sector governance structure is available publicly.	No
28	Where information about the sector remains confidential (not available publicly), the rationale for that confidentiality is explained and justified, for example, by the need to preserve commercially sensitive information.	Justifications for confidentiality refer to the lack of a law regulating access to information. Commercial and political sensitivities are additional justifications.
29	Employment policy for each agency within the sector (including the NOC) is transparent.	For PA yes. For other governmental entities, in part.
30	Criteria for awarding licenses are published well in advance of the actual awarding, and licensing decisions are justified according to the criteria and made publicly available.	Criteria for awarding licenses are published, but not well in advance.
32	The government and other stakeholders receive timely and accurate financial and operational information from industry participants	Not yet
33	Criteria for awarding major procurement contracts for the sector (including those awarded by the NOC) are published well in advance of the actual awarding and major award decisions are justified according to the criteria and made publicly available.	Not yet

8.6 RECOMMENDATIONS

Based on the above analysis, we recommend pursuing the following priorities:

Going forward:

- Passing the governance package
- Enforcing the access to information law
- Erecting an anti-corruption institution

Role for Norway:

- Norway may engage in petroleum sector specific competence building with oversight mechanisms: media, research institutions with broad outreach, NGOs, newly erected oversight bodies intended to have a function of oversight with petroleum related activities
- Norway may assist in technical solutions that facilitates access to information relevant to the sector

9 CAPACITY TO IMPLEMENT

Capacity to implement is a major challenge in Lebanon. There are numerous examples that policies adopted are not followed up, and laws not enforced. A 2008 UNDP report ascribes the poor capacity of implementation to a combination of politics, sectarianism, favouritism, and nepotism restricting the performance of Lebanese authorities. Key informants also emphasize that political and sectarian obstacles commonly cause postponement and unreliability.

The nascent petroleum sector in Lebanon is facing a somewhat different problem. Given the stakes involved, there is political and sectarian agreement to proceed in this sector, subjecting decision-making to the opposite mechanism – of being implemented very fast. Speedy decision-making is a blessing in a Lebanese context, and has characterized the sector from its inception. However, possible negative side effects may include somewhat premature decisions, very tight timetables, and occasionally a reduction of the quality of the preparatory work. The final drafting of the OPRL, the establishment of the PA and the process of the SEA were all affected by time pressure.

Given the high perception of corruption and poor governance performance in Lebanon, compliance with formal procedures in the petroleum sector has a value in itself. The regulatory framework currently in place offers numerous safeguards. Conveying a willingness and ability to comply with these rules and procedures will have positive impact on the perception of the management of the sector.

Another important element of capacity to implement concerns the institutional capacities of the governmental bodies. A French administrative model is at the core in Lebanon, offering long-term institutional employment. However, major incentives of the French model (status, influence, salaries) are weak in Lebanon, depriving the model of its main benefits. Many employees are on short-term contracts. Recent trends with political advisors to some extent overlapping in technical competence with public employees was viewed by several informants as an increasing obstacle to the performance of ministries - in terms of duplication of work, des-incentivising employees, and preventing proper institutional capacity building.

However, the PA is a new structure in an area where political consensus is presently strong, and that have been vested with a task for which they have been properly equipped so far. If the PA is provided with appropriate technical support to maximise its professional integrity and institutional independence, in turn having a very beneficial effect on its ability to function properly in its role as regulator of the sector.

	Relevant General Indicators	Key baseline findings
13	Policy-making is sufficiently institutionalized to enable consistency for long-term policy-making (and to avoid the occurrence of profound Policy changes whenever leading government figures leave power).	No/Moderate
15	The industry regulating bodies have the necessary technical skills, financial resources, knowledge, access and legal authority to exercise their	The newly established core structure has potentials to be effective. The auxiliary entities in other government bodies do not for the time being.

	powers effectively.	
16	Staffing decisions are based on the principle of 'best person for the job'.	Partially yes. Though sectarian and political affiliation is a requisite, qualifications are taken into consideration as well in public employment.
17	Employees in government agencies (including an NOC) with a mandate/tasks related to the petroleum sector are incentivized to improve performance.	Yes/no. There are good incentives in the PA. Incentives in other governmental bodies related to the petroleum sector do not compare.

10 RECOMMENDATIONS

Lebanon has come a long way in preparing for the emergence of an offshore petroleum industry. An appropriate policy, regulatory framework and governance structure containing the most critical elements for sustainable management of the sector are in place. Numerous initiatives to improve Lebanese petroleum governance are underway. Lebanon has opted for an ambitious model, indicating that the Lebanese aspire to manage their potential petroleum industry sustainably, but within the constraints of the Lebanese political and confessional context. Norwegian input, assistance, and capacity building efforts had a decisive impact on the regulatory framework in the preparatory phase. Nevertheless, the challenges facing the Lebanese when moving into the early implementation phase are many and complex.

The unanimous view held by all stakeholders is that Norwegian know-how, skills and experience would prove invaluable in supporting Lebanese aspirations for sustainable management of their potential petroleum sector also during the next phase. The ILPI team shares this assessment. Lebanese institutions are currently facing their first big test of whether stated policies and newly established frameworks can be viably implemented and enforced. Given the mixed record of Lebanese regulatory bodies, and Lebanon's lack of experience in governing a petroleum sector, the present analysis concludes that assistance and advice will be instrumental for the prospects of success in the early phases of implementation. Nevertheless, it is crucial to remember that Lebanon has yet to discover recoverable petroleum resources, leaving the future of a Lebanese petroleum sector uncertain. The Norwegian approach should take account of this caveat.

The ILPI team proposes the following set of recommendations in the event the OfD programme in Lebanon is renewed. These recommendations are intended to address how a new programme may best fill existing gaps and maximise desired impacts. The recommendations are divided in two. The first set addresses the issues likely to be most critical in the next three years. The second set addresses issues likely to be more relevant in a long-term perspective, assuming recoverable resources are discovered.

10.1 RECOMMENDATIONS FOR THE NEXT THREE YEARS

Based on the above analysis of the current state of the Lebanese petroleum sector, the ILPI team proposes the following recommendations for further OfD engagement with the sector over the next three years:

1. Strengthen the institutional capacities of the core petroleum structure. Norway has an important role to play in assisting the core petroleum structure, in particular the PA, and adjacent ministries in the initial phases of implementation through:

- **Broad engagement with the PA.** The newly established regulator should be supported. A major objective of the OfD program should be to identify ways to strengthen the institutional authority and professional integrity of the PA. Technical advice and assistance on organizational development and sustainable resource management through institutional cooperation, capacity building in targeted areas and input on best practices or practical management solutions may contribute to increasing the PA's authority, integrity and independence. This will in turn have beneficial effects for accountability in the sector.
- **Technical assistance to the Ministries.** Technical assistance should be offered to key ministries, in particular, the MoF, MoE and MEW.
- **Targeted program design.** The design of the program should endeavour to increase the PA's ability to engage other relevant ministries and specialized entities

to collaborate in the overall sector management and to facilitate inter-sectorial functions. The program ought to be designed taking into account (1) the embryonic nature of petroleum-sector-specific structures in the Ministries beyond the PA, (2) the poor record of formal procedures for cooperation between Ministries, and (3) the sectarian dynamics between Ministries, adding a layer of complexity to cross-ministerial cooperation. At the same time, (4) prevalent fears about the total dominance of the MEW in all areas of the sector should be kept in mind. The complexities and uncertainties of the current situation in Lebanon call for a clearly defined program in the next period. A design based on realistic objectives and a limited number of partners will increase the likelihood of reaching desired outcomes.

- **Increase decision-makers' understanding of the sector.** Norway should engage in activities to disseminate sector-specific knowledge to Lebanese decision makers in order to help them develop realistic expectations of the sector's potential. These efforts should in particular aim to increase decision-makers' understanding of the importance and benefits of an independent PA, in order to allow that institution to perform its role in a way that will ultimately benefit all Lebanese. Targeted workshops with politicians and political advisors, cooperation with certain independent research institutions that work with dissemination, workshops enhancing sector-specific knowledge within key media outlets are possible measures. In this work, it is important to have an implicitly inclusive approach to political and sectarian groups.

2. Adopt a targeted thematic emphasis. As the petroleum sector is moving from the preparation stage into the implementation phase, the OfD program's emphasis on financial issues should continue. However, certain matters that have been underemphasized in the previous program deserve more attention in a new phase:

- **Maintain focus on financial issues.** Norway should lend assistance to the further development and implementation of taxation and auditing schemes for the sector. Shared experiences and technical advice should also be offered on issues relating to financial management of the petroleum sector.
- **Increase focus on environmental issues.** Insufficient attention and resources have been allocated to environmental issues and risk management in preparation for the petroleum sector. Norway should assist the Lebanese in improving their environmental readiness for an active petroleum industry. In particular, Norway should lend assistance and advise on technical matters and regulatory matters, including HSE, to environmental authorities. The institutional structure responsible for environmental issues remains weak, and the progress of legislative initiatives over the next period is uncertain. As a result, and given the on-going licensing round, the main OfD program emphasis should be on the PA QHSE department. Cooperation with the newly initiated EU program on governance, targeting the Ministry of Environment, may also be advisable.
- **Increase efforts on transparency.** Transparency deserves an increased emphasis in the next implementation phase. The Lebanese petroleum sector governance model depends on a high level of transparency in order to function properly. Lebanon has a relatively poor record of transparency, due to structural obstacles in the Lebanese political and sectarian setup rather than any aversion or reluctance against transparency mechanisms per se. Norwegian assistance to Lebanon should be offered with this in mind. New initiatives Lebanon has taken to implement its obligations under the UNCAC represent a chance to improve the Lebanese record, allowing for more oversight and transparency in limited and specific areas. Norwegian advice and assistance may be valuable in efforts to implement and

strengthen oversight mechanisms that are currently being established. Attention should in particular focus on how to establish procedures with optimal transparency for all dimensions of the petroleum sector. Engagement with the few (and possibly increasing number of) research institutions and NGOs that are increasingly engaged with transparency in the petroleum sector is of paramount importance. Partners to the program should be limited and carefully selected at this stage. Norway may also assist in technical solutions that facilitate access to information relevant to the sector.

3. Continue regulatory assistance

- **Assistance on regulatory drafting.** Although the Lebanese are slowly strengthening their capacities in this field, Norwegian assistance in this regard is still welcome. To the extent necessary, Norway should assist the Lebanese in concluding the rest of the decrees under the Offshore Petroleum Resource Law.
- **Advice on review of broader legislation.** Norway could assist the Lebanese review of the impact of its existing legislation on the petroleum sector by sharing Norwegian experiences. For example, Lebanese company law, anti-discrimination law and other adjacent areas need review and streamlining. This may be postponed until the last part of the 3-year program.

4. Engage entities that may strengthen oversight and control mechanisms. A pressing need in Lebanon's preparations for an operative petroleum sector is to strengthen oversight and control mechanisms.

- **Disseminate petroleum-relevant knowledge within institutions with petroleum-specific oversight functions.** For both environmental and transparency issues, the Judiciary in Lebanon is envisaged to have an oversight role. The judicial capacities for petroleum specific questions are lacking. It should be examined whether capacity-building projects should specifically target general oversight mechanisms such as the Court of Audit (financial judiciary), other judicial institutions, the Parliament, and newly erected oversight bodies intended to monitor petroleum-related activities. Partners to the program should be limited and carefully selected at this stage.
- **Capacity-building to improve civil society oversight abilities.** There is general agreement that the risk of corruption is high, and that more effective mechanisms of democratic oversight are needed. Although the major power structures in Lebanon are fixed, Lebanon remains a relatively free society, and major achievements can be made in this area by providing various Lebanese stakeholders with the necessary sector knowledge and competence to be able to increase their value as oversight mechanisms. Norway should therefore also engage more broadly in building petroleum-sector-specific competence with oversight mechanisms such as the media, research institutions with broad outreach, and NGOs (see annex 4)

5. Avoid engagement in certain sensitive areas

- **Red line 1 – no involvement with jurisdictional disputes.** Norway should avoid direct or indirect involvement in Lebanon's inter-state jurisdictional disputes. Despite extensive experience and competence in maritime delineations, Norway or its consultants do not have sufficient overview of the complex, entangled and unpredictable nature of the questions involved. Norway should follow its longstanding policy of non-interference in other states' inter-state disputes. Lebanon already has access to the competence for such disputes through a combination of institutional improvements and international consultants. Norway

should clearly communicate this caveat to all participants in the program, and convey to all parties that the reasons for the restrictions are principled, not due to special treatment of Israel.

- **Red Line 2 – limited or no involvement with on-shore regulatory framework or activities.** Norway should avoid direct involvement with on-going efforts to extend the regulatory framework for petroleum on-shore. This issue raises questions much more entangled with sectarian and political sensitivities than offshore issues, far beyond the scope of the program. The complexities involved and potential controversies arising with onshore issues make this an area where Norway should adopt a very cautious approach. Norwegian involvement should at the very most be limited to providing advice on legislative models and technical issues.
- **Red Line 3 – Avoid direct involvement with commercial interests.** Consistent with longstanding OfD policy and guidelines, the program should avoid assisting the Lebanese with issues that risk touching directly on commercial interests, particularly where Norwegian corporations might be involved.

10.2 RECOMMENDATIONS FOR LONG-TERM ENGAGEMENT

In case the Norwegian OfD program continues beyond the next three years, which assumes discoveries of recoverable resources, the ILPI team proposes the following recommendations for continued engagement, some of which may also become relevant sooner:

Technical assistance to other Ministries: assistance should eventually be extended to include more peripheral ministries which may be the object of more targeted and specific input, such as the Ministry of Education or Ministry of Justice.

Guidance and advice on specific matters: Certain important issues left out of the Offshore Petroleum Resources Law will be subject to debate in the coming years. Norway should share its experiences with a national oil company and a sovereign wealth fund.

Emphasis on environmental issues: Norway should engage with a broader set of Lebanese stakeholders in order to convey the importance of prioritizing environmental issues. Placing environmental issues higher on the agenda is a critical step in preparing Lebanon for an offshore petroleum industry. On-going efforts to increase capacity building in the Ministry of Environment may improve its potentials for building institutional capacity. Efforts to streamline environmental issues within governmental bodies should also be an area of priority.

Efforts on transparency: Engagement with a broader number of research institutions and NGOs engaged with transparency in the petroleum sector. Emphasis should also be in international mechanisms. If recoverable discoveries are found, Norway should engage with a broader set of Lebanese stakeholders in order to convey the importance and benefits of committing Lebanon to the EITI – standards.

Engagement with public oversight mechanisms: Norway should engage with a broader range of public oversight institutions in order to disseminate petroleum-relevant knowledge within institutions with petroleum-specific oversight functions.

Focus on Education: Norway may assist Lebanon with input on how to develop petroleum-sector-relevant education. The need for proper management is important at an early stage before proliferation introduces a new set of problems.

11 ANNEX 1: GENERAL AND SPECIFIC INDICATORS FOR THE SECTOR IN LEBANON

<p>Specific Indicators LEBANON February 2013</p>	<p>NA = not available, NR = not relevant (yet)</p>
<p><i>I. Clarity of goals, roles and responsibilities</i></p>	
<p>1. National development objectives and the role of the oil and gas sector in contributing to those objectives are clear and well communicated to all stakeholders.</p> <p>a) Is a general national development plan in place? If so, is there a focus on the role of petroleum in development?</p> <p>b) Is a general upstream development plan in place?</p> <p>c) Is an oil and gas policy, which includes government take, in place?</p> <p>d) Has the oil and gas policy been publicly presented and explained?</p> <p>e) Are the plans and policies referred to above, if in place, also in use?</p> <p>f) Does the government have a plan in place to address and manage popular and political expectations regarding the management of petroleum resources?</p> <p>g) Is there a plan to address how the surge of activities in the petroleum sector will impact other areas of national economy (e.g. by rendering other sectors less economically attractive)?</p> <p>h) Are national development objectives regarding the petroleum sector inclusive?</p> <p>i) Do the policies in place garner legitimacy across sectarian lines?</p> <p>j) How are national development plans being implemented?</p>	<p>a) No</p> <p>b) No</p> <p>c) Yes, there is an oil and gas policy in place (2007). Government take is not included.</p> <p>d) No</p> <p>e) Policy plan from 2007 still in use.</p> <p>f) No</p> <p>g) No/NR. No petroleum reserves have been confirmed yet.</p> <p>h) NR</p> <p>i) Yes</p> <p>j) NR</p>
<p>2. The national onshore and offshore jurisdiction is defined and acknowledged by neighbouring states, and applies to petroleum activities.</p> <p>a) Are there on-going border disputes with neighbouring states in areas considered to</p>	<p>a) Dispute with Israel concerning 879 km², involving the UN and US mediation, dispute with Cyprus concerning 2007 agreement, lingering</p>

<p>have petroleum potential?</p> <p>b) Are there agreements in place for joint exploration and exploitation of petroleum in areas where jurisdiction is disputed?</p> <p>c) For coastal and island states, has the continental shelf been delineated according to UNCLOS or has a claim been presented?</p> <p>d) What types of mechanisms/processes are in place to handle border disputes with neighbouring states?</p> <p>e) How do on-going border disputes affect petroleum sector management more generally? Are there cumulative effects of these unsettled disputes?</p>	<p>disagreement with Syria.</p> <p>b) No</p> <p>c) Yes. A claim has been presented by Lebanon to the UN. Objecting states: Israel, Turkey, Syria not State-parties to the UNCLOS.</p> <p>d) A cross-ministerial ad hoc committee under the PM, headed by MFA has been established.</p> <p>e) Disputes affect clarity of rights and overall management, security concerns and prospects for joint exploration/joint LNG infrastructure</p>
<p>3. Laws and regulations governing the petroleum sector are in place and in use.</p> <p>Are the following defined by law/regulation:</p> <p>a) The right to the sub-soil petroleum resources?</p> <p>b) Government access to resource data? Ownership of resource data?</p> <p>c) The way the rights and responsibility for carrying out petroleum activities are transferred from the host government to the industry (including a national oil company)?</p> <p>d) The environmental standards and pollution control requirements in connection with petroleum operations? To what extent are these negotiable (should not be negotiable at all)?</p> <p>e) The HSE (health, safety and environment) regulations for petroleum operations, including risk potential for major accidents, and HSE standards for personnel, working environment and assets in the petroleum sector?</p> <p>f) The way the state's share of the revenue from petroleum is transferred from the companies to the host government?</p> <p>g) If there is direct government ownership through a national oil company (NOC): The NOC's purpose and mission, including any social objective obligations (e.g. providing</p>	<p>a) Yes. Indirectly in Constitution/Offshore Petroleum Law (OPRL) art. 4, 70</p> <p>b) The data resulting from the Reconnaissance license shall be the property of the State, Art 11</p> <p>c) Through EPAs (Exploration and Production Agreement), OPRL art. 19</p> <p>d) Petroleum activities are subject to ordinary environmental standards and pollution control, OPRL art.60. Low but non-negotiable.</p> <p>e) HSE requirement defined in OPRL chapter 9</p> <p>f) The State's share and transfer is regulated in OPRL chapter 6</p> <p>g) NR</p>

<p>employment beyond what is required for the NOC's activities, selling petroleum products at below international prices to national consumers)?</p> <p>h) Are the laws and regulations referred to above, if in place, the tools the government uses to govern the industry, or are other systems/practices more important?</p> <p>i) Which issues does the Exploration and Production Agreement leave to negotiation between the government and the operator, and which issues are non-negotiable?</p> <p>j) If some issues are regulated in both the Exploration and Production Agreement and the Offshore Petroleum Resources law, what is the relationship between the two?</p> <p>k) How does the general regulatory framework for economic activities in Lebanon compare to international good practices (e.g. based on World Bank "Doing Business" surveys)?</p> <p>l) How do the relevant import/export and procurement regulations affect the petroleum sector?</p> <p>m) Is Lebanon party to any Bilateral Investment Treaties (BITs)? If so, has the impact of these international law instruments been considered?</p> <p>n) Are there measures to address double-taxation related issues?</p> <p>o) Are there any other international law instruments Lebanon is a party to that may affect the state's petroleum sector?</p> <p>p) To what extent are regulatory processes institutionalized within the relevant government agencies?</p>	<p>h) NR</p> <p>i) Art 19 defines issues that the EPA will contain. The offshore law does not clearly set out negotiable and non-negotiable components.</p> <p>j) This is not directly clear from the OPRL but it would appear that the OPRL prevails if there is a conflict. Art 8, 10 and 65.</p> <p>k) The World Bank classifies Lebanon as a relatively high-risk country. (Doing Business rank for General Ease of Doing Business: 115 from 185)</p> <p>l) They affect the sector very directly. No study on overall impact seems to have been carried out.</p> <p>m) Lebanon is party to several BITs. It appears the potential impact has not been considered in detail.</p> <p>n) Lebanon has more than 30 double-taxation treaties in place. http://www.claytonmckervervey.com/attach/worldwide-tax-guide-lebanon.pdf</p> <p>o) UN Convention on the Law of the Sea (UNCLOS), BITs</p> <p>p) Not to a great extent. This concerns interactions between different governmental bodies.</p>
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<p>4. Responsibilities for petroleum sector management are clearly defined and assigned to individuals and/or institutions. Include all institutions/individuals with a mandate/tasks related to managing the petroleum sector - e.g. resource management, environmental management, occupational health and safety, revenue management (including government take management) and any commercial role.</p> <p>a) Name the institutions/individuals who have formal responsibility for policy-making, strategy-making, operational decision-making and monitoring and regulating industry activity, and their relevant areas of responsibility.</p> <p>b) Are the interfaces (the division of responsibilities) between the different institutions/individuals clearly defined?</p> <p>c) What is the extent of influence from others than mandated institutions/individuals (low/medium/high)?</p> <p>d) Is administrative practice in this area transparent?</p> <p>e) Are there criteria for petroleum sector management positions that are not reflected in official employment policies?</p> <p>f) Is the division of roles and responsibilities in the petroleum sector designed to facilitate inclusion and collaboration?</p>	<p>a) The PA has policy, strategy, operational, and monitoring responsibility, in an advisory capacity to the Minister. Final decision-making lies with the CoM based on advice from the MEW. The Ministry of Environment shares responsibility for monitoring environmental issues. The Ministry of Defence is the data-keeper for jurisdictional issues. Companies must also register with the Ministry of Trade.</p> <p>b) No. The details on role sharing and interaction between the PA and other governmental bodies are not yet settled, although the OPRL grants the Minister of Energy broad decision-making authority.</p> <p>c) Not yet clear. Risk of interference/influence from non-mandated entities is medium, as the potential benefit from the petroleum sector is cross-sectarian.</p> <p>d) So far (2 months), practice by the PA has been relatively transparent.</p> <p>e) Sectarian quota or political affiliation</p> <p>f) Yes</p>
<p>5. Responsibility for the regulatory functions is assigned to allow for objective, fair and independent oversight, and to minimize duplication of effort.</p> <p>a) Are there any aspects of how regulatory functions are assigned and executed that may lead to conflict of interest and/or duplication of effort?</p> <p>b) Does any commercial organization, for instance a national oil company, also have regulatory responsibility?</p>	<p>a) Yes. The division of labour between the ministries and the PA is not entirely clear yet</p> <p>b) No</p>

<p>c) To what extent does cross-institutional cooperation and data sharing take place between the institutions with regulatory responsibility (low/medium/high)?</p> <p>d) Are issues like transparency and margin of appreciation in decision-making etc. considered somewhere?</p>	<p>c) Cross-institutional cooperation is still low, but is planned to be medium.</p> <p>d) No</p>
<p>6. The legal, fiscal and regulatory framework in which foreign and private operators/service companies will operate and any obligations to the country beyond their agreed work program are clearly defined in their contracts/concessions or relevant legislation.</p> <p>a) What system is in use for transferring the rights for exploration and production to the industry (concessions, production sharing contracts, service contracts or any other)?</p> <p>b) Has the interoperability of various national laws and regulations and the petroleum law been analysed?</p> <p>c) Has the impact of the Lebanese regulatory framework on petroleum activities been analysed?</p>	<p>a) Traditional concession/license and a production sharing agreement</p> <p>b) No, there is no evidence that any such study has been undertaken.</p> <p>c) No. The Petroleum Activities Regulations have not yet been adopted.</p>

<p>II. Sustainable development and risk management as overarching goals for the sector</p>	
<p>7. The national petroleum inventory provides a good basis for the long term planning of the petroleum sector, and petroleum resources are managed efficiently and with an aim to minimize negative economic impacts on other sectors.</p> <p>a) Is the uncertainty distribution of the petroleum resources well understood among policy makers?</p> <p>b) Is there an exploration policy in place?</p> <p>c) Does the exploration policy support a long-term systematic mapping of the resources</p>	<p>a) No. Petroleum sector competence is still relatively low overall.</p> <p>b) Not entirely. The model Exploration and Production Agreement has not yet been adopted, but no exploration has occurred thus far.</p>

<p>through the licensing of acreage with different exploration risk at a pace that minimizes negative economic impacts on other sectors?</p> <p>d) Does the licensing strategy foster competition and favour technically and financially strong companies?</p> <p>e) Is there an approval system in place for fields and infrastructure and their abandonment?</p> <p>f) Is there an approval system in place for annual production plans?</p> <p>g) Is it possible to require revised production plans in order to reap the benefit of increased recovery or improved efficiency in the operation of petroleum fields?</p> <p>h) Are the governance tools mentioned in b)-g) above, if in place, used in practice, or are other systems/practices more important?</p> <p>i) How is the public sector control of the petroleum operations ensured?</p> <p>j) What is the mechanism for information gathering and impacting the operations?</p>	<p>c) NR</p> <p>d) Yes, although the licensing process has only just begun.</p> <p>e) No. This is intended to be included in the Joint Operating Agreement for Petroleum Activities, which has yet to be adopted.</p> <p>f) This depends on the terms of the operative Exploration and Production Agreement.</p> <p>g) Unclear.</p> <p>h) There is as yet no practice to speak of.</p> <p>i) The Petroleum Administration, under the Ministry of Energy and Waters, has primary authority to regulate the petroleum sector. The CoM has final authority in approving crucial decision making implicating public interest.</p> <p>j) License-holders shall report pursuant to the terms of their Exploration and Production Agreement.</p>
<p>8. Effective processes and incentives are in place to ensure that the development of petroleum infrastructure and its operations do not result in long-term damage to the environment, unacceptable health, safety and working conditions, unacceptable social impacts or other human rights violations.</p> <p>a) What are the requirements (legal/guidelines/policies) for project specific Environmental Impact Assessment (EIA) and Strategic Impact Assessment (SEA) in the various phases (opening, exploration, development, transport, decommissioning) of petroleum activities to ensure that direct and indirect impacts on the environment as well as on society/community and natural resources are assessed?</p> <p>b) Which groups are consulted in these impact</p>	<p>a) The OPRL, art. 7 provides that the PA will undertake a strategic environmental assessment study before any petroleum licensing round occurs. In the exploration phase, once a discovery has been made, the Rights Holder must submit a plan for development and production that includes an environmental impact assessment (EIA). OPRL, art. 29(1). OPRL art. 32 require the operator to conduct an EIA for transportation, storage, and utilization as well.</p> <p>b) The CoM has the ultimate authority for approving</p>

<p>assessment processes?</p> <p>c) Are there guidelines in place for compensation of groups that are directly and negatively affected by petroleum activities?</p> <p>d) Are there inspections, monitoring, follow-up and regulatory enforcement systems in place?</p> <p>e) Is there a system in place for performing independent HSE audits?</p> <p>f) Is there an oil spill contingency system in place?</p> <p>g) If yes to f) how is responsibility for the oil spill contingency system divided between industry and the regulatory agencies and between the various agencies?</p> <p>h) Are there regulations/guidelines in place concerning gas flaring and emission of climate gases?</p> <p>i) Are there acts, guidelines and regulatory enforcement systems in place addressing corruption?</p> <p>j) Are the governance tools mentioned above used in practice, or are other systems/practices more important?</p> <p>k) Are any environmental and/or HMS standards left subject to negotiation with operators? If so, what is the rationale?.</p>	<p>the scope of the EIA, at the advice of the PA and the Minister. OPRL, art. 29(3), 32. The OPRL does not list any specific stakeholders who must be consulted.</p> <p>c) No.</p> <p>d) A “Competent authority” may conduct inspections as needed, and may charge operators a fee not to exceed the authority’s costs. OPRL art. 74.</p> <p>e) No.</p> <p>f) OPRL chapter 9 requires license applicants to submit contingency oil spill plans.</p> <p>g) This is not yet entirely clear, aside from the requirement that industry actors submit their emergency response plans to the regulators. The Petroleum Activities Regulations currently under discussion will likely flesh out the details.</p> <p>h) Yes. OPRL art. 36 describe the process for applying to flare or cold ventilate extracted components.</p> <p>i) No. There is no specific anti-corruption legislation and the only institutional enforcement system is the Court of Audit. Lebanon became a party to the UN Convention Against Corruption in 2009, but implementation of the convention into Lebanon’s domestic law has proceeded slowly. Nevertheless, several anti-corruption legislations have been drafted pending Parliament vote. If adopted, these could pave the way for a stronger anti-corruption regime.</p> <p>j) In practice, anti-corruption enforcement remains weak. Controlling for corruption is primarily imbedded in a multi-layer approval process.</p> <p>k) No. Standards are minimal, but non-negotiable.</p>
<p>9. The government take system maximises national revenues and promotes profitable investment</p> <p>a) If any, what are the government take instruments for petroleum activities (taxes, royalty, production sharing agreements, direct ownership, and/or other)?</p>	<p>a) Hybrid system: profit sharing, taxes on profits, and royalties. The state share will be specified in the license or the EPA, pursuant to a CoM decree. Profit taxes may be in cash or in kind. For profit sharing, Lebanon will use an R-factor system, whereby “R-</p>

<p>b) Are the fiscal terms the same for all companies (incl. an NOC)?</p> <p>c) In selecting applicants qualified to apply for an operating license, what are the required criteria, and how do these compare with operator requirements in other countries?</p> <p>d) After initial selection of qualified applicants, how will the bidding process occur?</p>	<p>Factor = (Cumulative inflows) n / (Cumulative Capital Expenditures) n”</p> <p>b) Unclear, since no licenses have been issued yet. All rights holders must pay an area fee annually to the state, calculated based on the square footage covered the license. There is currently no NOC.</p> <p>c) Companies may pre-qualify as an Operator or Non-Operator. Among other requirements, the company must be incorporated as a joint stock company and Operator applicants must have assets of at least 10 billion USD. Significantly, the Exploration and Production Agreement can only be granted to consortiums with three companies. This last requirement is unusual but not unheard of. The other requirements reflect standard practice.</p> <p>d) The bidding process begins in May 2013, and is open only to pre-qualified applicants. The Minister for Energy and Water will negotiate with short listed qualified applicants based on the principles and criteria stipulated by the OPRL and the invitation itself. There are no formal procedures established for how the negotiations will occur. In practice, the PA board of directors will most likely conduct the negotiations on behalf of the Minister, with the Minister negotiating directly, if at all, only in the later stages of negotiations. The Minister then submits a report to the Council of Ministers containing the results of the negotiations with the selected applicants and a recommendation for signing an Exploration and Production Agreement.</p>
<p>10. The fiscal policy supports a stable development of the economy both in the short and the long run.</p> <p>a) Are the budget/spending programs exposed to short-term volatility in oil and gas prices?</p> <p>b) Are the official economic statistics available sufficient and of the quality necessary to conduct macroeconomic analysis, i.e. measure economic activity?</p> <p>c) Does the fiscal policy framework take into account the short-term absorptive capacity of the economy?</p> <p>d) Does the fiscal policy framework take into account that in a long-term perspective the revenue from petroleum production will abate</p>	<p>a) No. At this point, the government has not received any petroleum revenue, so budget/spending programs are not currently dependent on the petroleum sector.</p> <p>b) Yes. See the Central Administration of Statistics website: http://www.cas.gov.lb/index.php/en/, the Bank of Lebanon website: http://www.bdl.gov.lb/edata/index.asp, and the Ministry of Finance website: http://www.finance.gov.lb/en-US/finance/EconomicDataStatistics/Pages/default.aspx.</p> <p>c) Unclear.</p>

<p>and eventually cease?</p> <p>e) Are fiscal risks, particularly risks related to the uncertainty of the price of petroleum and contingent liabilities, explicitly considered in annual budget documents?</p>	<p>d) No. Petroleum revenues are not currently factored into the state budget.</p> <p>e) No, for the same reasons as above.</p>
<p>11. Where there are policies for maximizing national value creation from the petroleum sector beyond generating taxation revenue these policies are realistic and promote diversification of the economy.</p> <p>a) Is there a policy in place for maximizing local content (“local content” is here defined as “national employment, the use of national goods and services, and transfer of technology and know-how”)?</p> <p>b) Are targets for local content based on an analysis of supply capacity and projected demand?</p> <p>c) Where the industry (including an NOC) is involved in projects aimed at increasing local content, are these projects petroleum sector related?</p> <p>d) What type of plans are in place for national capacity building in petroleum operations, for example, education and experience-based learning opportunities?</p>	<p>a) A Right Holder as well as its subcontractors must give priority to Lebanese persons in the award of contracts for construction of a facility and the supply of material, goods and services related to Petroleum Activities when terms and conditions offered by Lebanese suppliers are equal to their competitors.</p> <p>b) Unclear.</p> <p>c) Yes, that is the intention.</p> <p>d) There is no overarching plan for capacity building in petroleum operations, but educational institutions are rapidly adding petroleum-related courses and degree programs to meet future demand.</p>
<p>III. Enablement to carry out the role assigned</p>	
<p>12. Policy-makers have sufficient knowledge, capacity and internal alignment (agreement) to set effective policy and realistic and prioritized objectives for the sector.</p> <p>a) Name the number and positions of key policy-makers with a mandate/tasks relevant to the petroleum sector.</p> <p>b) What is the average education level of key</p>	<p>a) The six members of the Petroleum Administration have the primary mandate for regulating the petroleum sector. Note, however, that the PA is not a policy-making body, but an advisory entity with strong implication in the policy decision process.</p> <p>b) The level of education varies, but several have extensive petroleum-relevant training and experience. Several parliamentarians who became involved in the</p>

<p>policy-makers?</p> <p>c) What is the average number of years of relevant experience of key policy-makers, in particular, technical, legal, and/or commercial experience with the upstream petroleum industry?</p> <p>d) What is the extent of internal alignment (agreement) between key policy makers (low/medium/high)?</p> <p>e) Are there plans for public sector capacity building, such as obligations to provide and/or support education, create internship and secondment schemes, etc. that are relevant (especially given that this is a new industry for the country)?</p> <p>f) Are training and educational opportunities relevant to the petroleum sector inclusive with selection based on merit?</p>	<p>drafting and approval of the OPRL gained relative knowledge in the sector.</p> <p>c) Unknown. Several members have extensive industry experience; others have a background in public administration or foreign relations. The PA does, however, lack any members with substantial expertise in finance or taxation.</p> <p>d) There is no standard answer to this question. Policy makers' motivations depend heavily on the underlying political context in Lebanon. As a result, decision-making proceeds rapidly when sensitive issues are not involved, whereas gridlock can easily occur when decisions affect various groups' core interests.</p> <p>e) No, not yet.</p> <p>f) Relevant opportunities are increasingly available within the public education sector, but informants expressed concern about the extent to which sectarian concerns and corruption affect access to education, as well as the quality of the programs offered. Alternatively, qualifications have been drawn from the private education sector that is more flexible and adoptable to market demands</p>
<p>13. Policy-making is sufficiently institutionalized to enable consistency for long-term policy-making (and to avoid the occurrence of profound policy changes whenever leading government figures leave power).</p> <p>a) What type of system is in place for transition of political power?</p> <p>b) When did such a transition of political power</p>	<p>a) Lebanon is a parliamentary democracy with quotas based on religious affiliation. Under this confessional system, different religious communities are stakeholders in most decision-making bodies. All central political bodies are based on a division of posts distributed equally between Christians and Muslims (50-50%). Local and national elections are held regularly since 1992. Parliament nominates the PM following elections and approves the government's composition and policy statement. Since 1992, transfers of power between consecutive governments and parliaments have occurred without major interruptions.</p> <p>b) The Council of Ministers under the current Prime Minister (PM) Najib Mikati was established following</p>

<p>last happen?</p> <p>c) Have the petroleum sector policies of the current government been consistent with those of the previous government (to a small extent – to some extent – to a large extent)?</p> <p>d) To what extent do policy-makers draw upon input from public sector staff who are not politically elected/recruited (low/medium/high)?</p> <p>e) Are there informal criteria for policymaking within the petroleum sector that are not reflected in the official petroleum policy?</p>	<p>the collapse of former PM Saad Harriri’s National Unity Government in 2011.</p> <p>c) Only one petroleum policy has been developed, in 2007. Within the most recently established governments, the amount of attention paid to petroleum policies has increased steadily.</p> <p>d) Low. A trend dating back to the 2000 and the Rafiq Hariri-era is a practice by which a Minister brings in a large group of political advisors, also with technical skills. Although these officials are not public employees, this tendency has been increasingly been (the perception of) confessional influences over public administration.</p> <p>e) Yes. Confessional considerations play a major role in policy formation for every sector of Lebanese society. Nevertheless, several ministries have begun to rely on international technical assistance (parallel institutionalism) as a way to modernize administrative effectiveness and overcome political red tape and confessional obstructions.</p>
<p>14. The NOC, if one exists, is delegated financial and managerial authority to carry out its role and/or function.</p>	<p>There is currently no NOC.</p>
<p>15. The industry regulating bodies have the necessary technical skills, financial resources, knowledge, access and legal authority to exercise their powers effectively.</p> <p>a) What is the number of professional staff in each regulatory body (or department, where only one part of the institution is working towards the petroleum sector)?</p> <p>b) What is the average number of years of relevant experience for staff in each regulatory body or department?</p> <p>c) What is the average education level of professional staff in each regulatory body or department?</p> <p>d) What are the funding mechanisms for each of these regulatory bodies or departments?</p> <p>e) What is the total budget for each regulatory</p>	<p>a) The PA is in the process of hiring staff.</p> <p>b) To be determined.</p> <p>c) To be determined.</p> <p>d) To be determined.</p> <p>e) To be determined.</p>

<p>body or department? Who controls use of the funds?</p> <p>f) For both the private and the public sector, are there educational institutions within the country that train students in the technical, legal, and commercial skills necessary for employment in the petroleum sector?</p> <p>g) For both the private and the public sector, are there opportunities for vocational and other apprenticeship-based training within the upstream petroleum sector?</p>	<p>f) Increasingly, yes, although petroleum-related courses are generally new and the quality is unknown. Lebanon also benefits from a diaspora network with experience from the petroleum industry abroad.</p> <p>g) Possibilities in private educational sector are high provided that seed funds to institutionalize and kick-start such programs are provided.</p>
<p>16. Staffing decisions are based on the principle of 'best person for the job'.</p> <p>a) Is there a civil service act governing recruitment in government agencies?</p> <p>b) If yes, does the act govern the recruitment of employees in all government agencies (including an NOC) with a mandate/tasks related to the petroleum sector?</p> <p>c) Are there provisions concerning the recruitment of relatives?</p> <p>d) Have requirements for education, skills and experience been defined in advance of the recruitment process?</p> <p>e) Are the governance tools referred to in a)-d) above used in practice, or are other systems/practices more important?</p>	<p>a) Yes, through the Civil Service Board. Formal recruitment, examination, orientation, and training procedures are present for all public employees.</p> <p>b) Yes. All public employees must be selected by the CSB, though the process is often overstepped by political and sectarian considerations, especially for high-ranking posts.</p> <p>c) Unclear</p> <p>d) Yes, the CSB must advertise for posts and include qualifications of candidates.</p> <p>e) Other political and sectarian concerns at CoM are typically more important for hiring decisions. CSB plays a rubber stamp role.</p>
<p>17. Employees in government agencies (including an NOC) with a mandate/tasks related to the petroleum sector are incentivized to improve performance.</p> <p>a) Who defines salary levels for each of the relevant agencies?</p> <p>b) Approximately what would be a (nationally) competitive salary level for professional staff?</p> <p>c) What is the average salary level for professional staff in each of the relevant agencies measured as a percentage of a nationally</p>	<p>a) The Civil Service Board, under the PM's direction, handles salaries for civil service employees.</p> <p>b) Unclear, the PA is in the process of hiring staff. But members of the PA will receive higher salaries than other public employees (approximately monthly 20,000 USD and benefits). The CoM has final authority to approve salary brackets in particular situations based on the recommendation of the relevant ministry.</p> <p>c) To be determined. The PA is in the process of hiring staff. A monthly salary of approximately \$1,500-\$2,500 is typical for staff in other ministries.</p>

<p>competitive salary?</p> <p>d) Are personnel development/training and/or career plans in place for the professional staff in each relevant agency?</p> <p>e) Are there other incentive schemes than c) and d) above in place for the professional staff in each relevant agency?</p>	<p>d) To be determined</p> <p>e) To be determined</p>
<p>18. The fiscal and budgetary relationship of the NOC to the state is structured to enable the NOC to achieve its objectives efficiently and to ensure that NOC spending is in the national interest.</p>	<p>NR. There is no NOC.</p>
<p>19. The NOC board has the appropriate knowledge, skills and resources to carry out its role.</p>	<p>NR. There is no NOC.</p>
<p>20. Operational and commercial decisions of the NOC executive management and board are separated from political and other conflicting interventions.</p>	<p>NR. There is no NOC.</p>

<p><i>IV. Accountability of decision-making and performance</i></p>	
<p>21. Mechanisms are in place to ensure that industry participants in the sector work in compliance with national and international laws, regulations and contractual obligations.</p> <p>a) What are the key monitoring and sanctioning mechanisms used by the regulatory institution/s for ensuring that industry participants in the sector are in compliance with laws, regulations and contractual obligations?</p> <p>b) Are there any areas where monitoring and sanctioning capacity is insufficient?</p> <p>c) What are the available monitoring and sanctioning mechanisms for revenue management and internal and external audit functions in particular?</p>	<p>a) The PA has primary regulating authority, under the tutelage of the MEW. The Ministry of Environment retains authority to enforce compliance with Lebanon’s environmental laws.</p> <p>b) Specific anti-corruption institutions are still under debate in the Parliament. Capacity throughout the Lebanese public sector is limited by the generally low level of petroleum competence.</p> <p>c) The Court of Audit is expected to play a major role in auditing the petroleum sector.</p>

<p>22. The revenue management system facilitates aggregate fiscal discipline.</p> <p>a) Are all petroleum related revenues integrated into one budgetary system?</p> <p>b) Do these revenues include those transferred to extra-budgetary fund(s) (e.g., oil savings funds, donor projects)?</p> <p>c) Are there any legislative constraints on the size of the deficit, debt, level of expenditure, or other fiscal aggregate?</p> <p>d) Does the overall fiscal policy framework clearly state the rules used for the management of extra-budgetary fund(s) (e.g. oil savings funds, donor projects)?</p> <p>e) Are state budget audits conducted by institutionally independent agencies?</p> <p>f) How much of the state revenue will be front-end loaded?</p>	<p>a) To be determined.</p> <p>b) The OPRL contemplates the development of a petroleum fund, but the statute creating this fund has not yet been developed.</p> <p>c) No. A specific statute establishing a sovereign wealth fund is planned.</p> <p>e) The Court of Audit's independence is questionable.</p> <p>f) The Lebanese revenue system is sensitive to income generation before government starts to take its share. Unlike some other areas, it is not heavily front-loaded. The state starts to take its share only once production has started. This also means that the expectations of the public have to be managed.</p>
<p>23. The national petroleum sector as a whole is subject to regular audit, accounting for revenues due to the government, revenues paid to the government and revenues received by the government.</p> <p>a) Which national auditing mechanisms apply to the figures reported by the different agencies involved in collecting taxes and other revenues from the petroleum sector?</p> <p>b) If the country has signed up to the Extractive Industries Transparency Initiative (EITI), how far has the country come in the process of becoming a compliant country?</p>	<p>a) The Bureau of Accounts/Court of Audit (financial judiciary) is responsible for financial control of the administration, including pre- and post-audits. The Court of Audit's authority is not limited by sector, although it will likely be heavily involved in the petroleum sector.</p> <p>b) Lebanon has not signed up for the EITI.</p>
<p>25. There is capacity and petroleum sector knowledge within the legislature to debate proposed petroleum legislation and to hold the government accountable for decision-making and performance.</p> <p>a) What is the level of petroleum sector knowledge among the relevant legislative committee/s (low/medium/high)?</p>	<p>a) Low. The legislature does not have sufficient petroleum sector knowledge to perform this role, although several MPs developed interest in and knowledge of the subject following the adoption of the OPRL in 2010.</p>

<p>b) Do the legislators have access to advisors with petroleum sector expertise when debating proposed legislation?</p>	<p>b) There is no formal system in place to grant legislators access to advisors with petroleum sector expertise. The Parliament and its committees may, however, use special questioning or interrogation sessions to question public employees, including Ministers.</p>
<p>26. There is capacity, independence and petroleum sector knowledge among civil society (including media) to create public debate and contribute to holding the government accountable for decision-making and performance.</p> <p>a) Is there an independent media in the county?</p> <p>b) What is the level of petroleum sector knowledge among the independent media (low/medium/high)?</p> <p>c) What is the number of civil society organizations with significant petroleum sector knowledge?</p> <p>d) How are these civil society organizations funded?</p>	<p>a) The Lebanese media are semi-independent. Seen in a regional perspective, Lebanon has a long tradition of a high degree of freedom of the press, and media and NGOs score relatively well in international indexes. Nevertheless, media and domestic NGOs are largely constrained by sectarian dynamics, a fact that affect their work and the potential for joint action.</p> <p>b) Low, but interest in petroleum-related issues is increasing. There is a gap in petroleum sector knowledge among civil society actors (including media)</p> <p>c) Publish What You Pay and Revenue Watch Institute are the two civil society organizations with mandates most relevant to the petroleum sector that are currently present in Lebanon.</p> <p>d) Charitable foundations, international financial institutions, and governments (not including the Lebanese government).</p>

<p><i>V. Transparency and accuracy of information</i></p>	
<p>27. A simple, comprehensive guide to the petroleum sector governance structure is available publicly.</p>	

<p>a) Is a guide to the petroleum sector available publicly?</p> <p>b) What are the means of publication (website, newspapers, government publication, etc.)?</p> <p>c) Is the guide available in the most commonly used national language/s</p> <p>d) Who is responsible for publishing and updating the guide?</p>	<p>a) No.</p> <p>b) NR</p> <p>c) NR</p> <p>d) NR</p>
<p>28. Where information about the sector remains confidential (not available publicly), the rationale for that confidentiality is explained and justified, for example, by the need to preserve commercially sensitive information.</p> <p>a) Are there acts and regulations effectively securing the general public's right to information?</p> <p>b) Are there acts and regulations governing confidentiality related to the petroleum sector (including 29. Employment policy for each agency within the sector (including the NOC) is transparent. Environmental management and revenue management)?</p> <p>c) Are the laws and regulations referred to above, if in place, used, or are other systems/practices more important?</p> <p>d) Who within the state institutions responsible for regulating the petroleum industry has access to confidential information about the sector?</p>	<p>a) No.</p> <p>b) No.</p> <p>c) Justifications for confidentiality refer to the lack of a law regulating access to information. Commercial and political sensitivities are additional justifications.</p> <p>d) The PA and the MEW.</p>
<p>29. Employment policy for each agency within the sector (including the NOC) is transparent.</p> <p>a) Are positions publicly advertised?</p> <p>b) Is information about the decision/selection, including justification according to the requirements (see indicator 16), available to the public?</p> <p>c) Who can make decisions to hire and fire high-ranking employees?</p>	<p>a) To be determined. No staff or administrative personnel have been hired yet.</p> <p>b) Most likely, no.</p> <p>c) Staffing in the PA-administration will be dependent on an advisory opinion from the PA. Hiring based on annual contracts is made by the MEW. The same goes for the hiring of consultants. At this level of management, technical qualification and experience is decisive.</p>
<p>30. Criteria for awarding licenses are published well in advance of the actual awarding, and licensing decisions are justified according to the criteria and made publicly available.</p>	

<p>a) Are criteria for awarding licenses published?</p> <p>b) If yes to a), how long in advance of the actual award are the criteria published?</p> <p>c) Are licensing decisions justified according to the criteria and made publicly available?</p> <p>d) What are the means of publication (website, newspapers, government publications etc.)?</p> <p>e) Are communications between potential bidders and government officials made publicly accessible?</p>	<p>a) Yes. See http://www.lebanon-exploration.com/PreQualification.htm. The PA will determine which applicants are placed on a short list, and the Minister and PA will conduct negotiations with them directly.</p> <p>b) Supposedly, six months.</p> <p>c) To be determined. Prequalification decisions will be made public, but it is unclear whether a justification will be published as well.</p> <p>d) Not specified, but there is an MEW website dedicated to licensing: http://www.lebanon-exploration.com. This announcement was also published in Lebanon's Official Gazette and local and international publications. Presumably, the award announcement would use similar channels.</p> <p>e) Unclear, but the MEW has published an anonymous list of frequently asked questions regarding the bidding process.</p>
<p>31. Environmental and strategic impact assessments and decisions to issue permits (for instance pollution permits) are subject to a consultation process and made publicly available.</p> <p>a) Before completing SEAs or EIAs, or before issuing permits, are the draft documents made available for comments from relevant stakeholders?</p> <p>b) Is justification for approval or rejection made publicly available?</p>	<p>a) There is no provision for this.</p> <p>b) There is no provision for this.</p>
<p>32. The government and other stakeholders receive timely and accurate financial and operational information from industry participants.</p> <p>a) What type of financial data and data from petroleum operations are made available by the industry participants to the government and other stakeholders?</p> <p>b) What are the reporting procedures/requirements established by the government/other stakeholders?</p>	<p>a) To be determined. Exploration has not yet begun.</p> <p>b) To be developed in the Petroleum Activities Regulations, which have not yet been adopted.</p>
<p>33. Criteria for awarding major procurement contracts for the sector (including those awarded by the NOC) are published well in advance of the</p>	

<p>actual awarding and major award decisions are justified according to the criteria and made publicly available.</p> <p>a) Are criteria for awarding major procurement contracts for the sector published?</p> <p>b) If yes to a), how long in advance of the actual award are the criteria published?</p> <p>c) Are the award decisions justified according to the criteria and made publicly available?</p> <p>d) What are the means of publication (websites, newspapers, government publications, etc.)?</p>	<p>a) There is currently no specific policy on major procurement contracts for the sector.</p> <p>b) NA</p> <p>c) NA</p> <p>d) NA</p>
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12 ANNEX 2: POLITICAL MAPPING OF MINISTRIES

The 30 minister-government of PM Mikati emerged supported by a narrow Parliamentary majority, representing various political groups and sectarian affiliations distributed as follow:

Ministry	Minister	Political affiliation	Religious Sect
Presidential Share (3/30)			
Interior and Municipalities	Marwan Charbel	Independent	Maronite
Deputy Prime Minister	Samir Mouqbel	Independent	Greek Orthodox
Environment	Nazim Khoury	Independent	Maronite
Prime Minister Share (6/30)			
Prime Minister	Najib Mikati	Glory Movement	Sunni
Finance	Mohammad Safadi	Independent	Sunni
Minister of State	Ahmad Karami	Glory Movement	Sunni
Information	Walid Daouk	Independent	Sunni
Education	Hassan Diab	Independent	Sunni
Economy and Trade	Nicholas Nahhas	Glory Movement	Greek Orthodox
Change and Reform bloc (11/30)			
Labor	Salim Jereisati	Free Patriotic Movement	Greek Catholic
Telecommunications	Nicolas Sehnawi	Free Patriotic Movement	Greek Catholic
Culture	Gaby Layyoun	Free Patriotic Movement	Greek Orthodox

Justice	Shakib Qortbawi	Free Patriotic Movement	Maronite
Energy and Water	Gebran Bassil	Free Patriotic Movement	Maronite
Tourism	Fadi Abboud	Free Patriotic Movement	Maronite
Defense	Fayez Ghosn	Marada Movement	Greek Orthodox
Minister of State	Salim Bey Karam	Marada Movement	Maronite
Industry	Vrej Sabounjian	Tashnag	Armenian Orthodox
Minister of State	Panos Manjian	Tashnag	Armenian Orthodox
Minister of State	Marwan Kheir El Din	Lebanese Democratic Party	Druze
Loyalty to the Resistance bloc (2/30)			
Agriculture	Hussein Hajj Hassan	Hezbollah	Shia
Minister of State	Mohammad Fneish	Hezbollah	Shia
Struggle Front bloc (3/30)			
The Displaced	Alaaeddine Terro	Progressive Socialist Party	Sunni
Public Works and Transport	Ghazi Aridi	Progressive Socialist Party	Druze
Social Affairs	Wael Abou Faour	Progressive Socialist Party	Druze
Others (5/30)			
Health	Ali Hassan Khalil	AMAL Movement	Shia
Foreign Affairs	Adnan Mansour	AMAL Movement	Shia
Sports and Youth	Faisal Karami	Arab Liberation Party	Sunni
Minister of State	Nicolas Fattoush	Independent	Greek Catholic
Minister of State	Ali Qanso	Syrian Social Nationalist Party	Shia

- Prime Minister:** Najib Mikati emerged as a prominent politician during the Syrian-domination area of Lebanon. The successful businessman and billionaire, who made his fortune out of global telecommunication industry, is known to have established a close personal association with Syrian President Bashar El-Assad. There are unconfirmed reports that Mikati's brother and partner runs joint business venture with Al-Makhlouf family in Syria. Mikati have occupied various prominent ministerial and parliamentary posts and became Prime Minister in 2005. He headed a transitional government that paved the way for the election of 2005. He has played a pragmatic political role and succeeded in switching camps and form difficult alliances in his predominantly home region of Tripoli. Though he currently commands a small parliamentary bloc and largely viewed as hardly representative of the Sunni sect at large, he is considered as the person of political necessity who can secure relative political stability in a country that is deeply divided. Mikati political role relies on the backing of the "centrist" groups, most critically President Suleiman and the Druze leader Walid Jumblat. Together they secure one third of cabinet composition, which is necessary to pass any issue of national significance (blocking third or veto power).

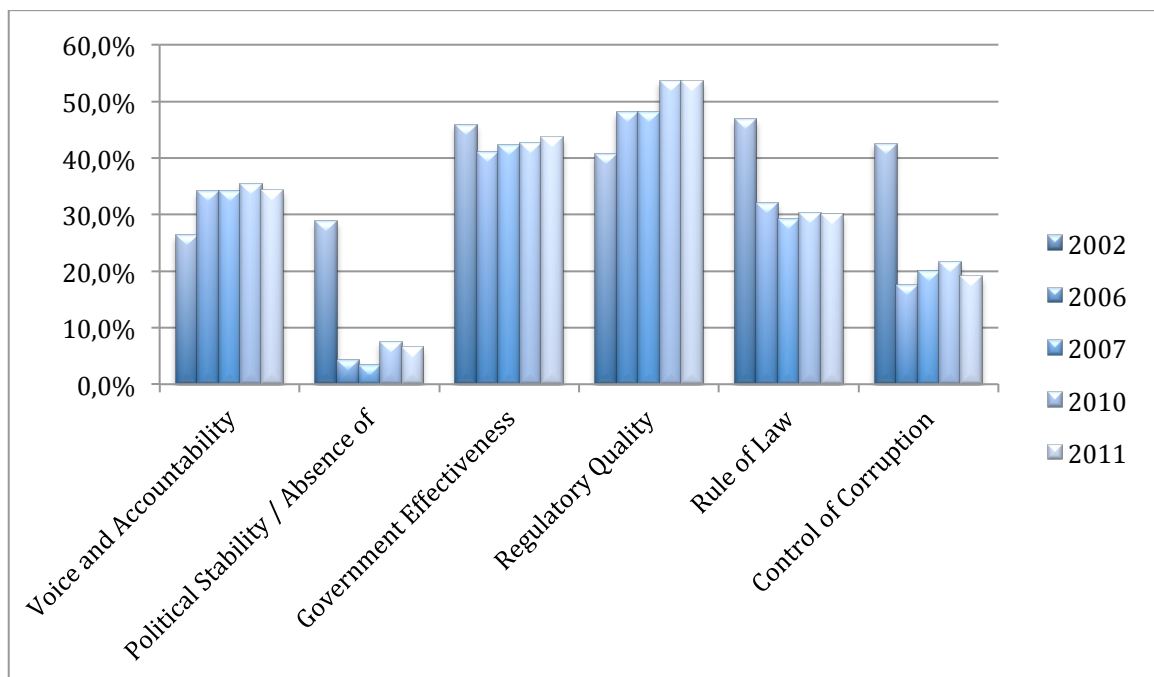
- **Minister of Energy and Water:** Minister Gebran Bassil is most importantly known for being the brother-in-law of the powerful Christian political leader Michel Aoun who heads the Free Patriotic Movement. The latter commands the second largest Parliamentary bloc (Change and Reform) and one third of the COM's seats. Minister Bassil is a very controversial figure accused by the opposition of large corruption scandals, but considered to be a proactive and a strong leader by supporters. The Free Patriotic Movement, which competes with the Lebanese Forces and Kataab Party over the leadership of the Christians, has found in its alliance with Hezbollah a way to strengthen its position. Though this has pushed the group to seek regional alliance and support from Syrian and Iranian regimes, it has not indicated a total breakaway from the West. Anti-Israeli and anti-American rhetoric were not translated in any practical terms, and the FPM continued to seek Western countries support in a drive to restore Christian relevance to Western interest in the region, a role that has been largely conceived to have been taken by the Sunnis and the Hariri leadership.
- **Minister of Environment:** Minister Nazim Khoury is a close associate and advisor to President Suleiman. He is known for his moderate position, acceptable by most political camps. He succeeded former Minister Mohammad Rahhal, a member of the Future Movement.
- **Minister of Finance:** Minister Mohammad Safadi is also an MP from Tripoli. He is known for his large fortune and strong personality. Like PM Mikati, he is a pragmatist who has often adjusted his political position relative to changing political circumstances. Like Mikati, he also seeks Sunni leadership and competes for such a role with both Mikati and Hariri. Though he broke along Mikati with Hariri in forming the new government, his relation to Mikati remains unstable and his interest in the Premiership position often underline this uneasy alliance. His latest declaration for not seeking a new Parliamentary term is sometimes cited in the media as a way for presenting himself as a consociational figure standing above politics, and who may better lead a future government.
- **Minister of Transportation and Public Work:** MP Ghazi Al Aridi is the second most powerful Druze leader within the Jumblat camp. An elegant and charismatic public speaker is often accused of corruption.
- **Minister of Defense:** Minister Fayez Ghosn is a close follow of Christian Northern leader and staunch Syrian ally Suleiman Frengieh. Ghosn is most famously known for accusing Sunnis who support the Syrian revolution of harboring Al-Qaeda and Islamist extremists on the Lebanese-Syrian borders.
- **Minister of Interior and Municipalities:** Minister Marwan Charber is a close associate of President Suleiman. He was charged with the MOIM after long negotiation and after a final agreement that was achieved between President Suleiman and General Aoun. The Minister is known for his soft position and arbitration approach in resolving security standoffs.
- **Minister of Foreign Affairs and Diaspora:** Minister Adnan Mansour is a closely linked to the powerful Parliament speaker Nabih Berri. Mansour is known for his close ties to the Syrian regime and its Ambassador in Lebanon.
- **Minister of Justice:** Minister Shakib Qortbawi is a close associate of Christian leader Michael Aoun.
- All the above ministries would play a crucial role in the governance of the Petroleum sector while administer by Director Generals. For example:
 - the Office of the Prime Minister, were several executive oversight agencies are administratively established, some may take different roles at different time in the process of petroleum governance; such as Court of Audit overlooking public contracts, licensing, and complains (Resided by Judge Awni Ramadan, a Shia who is closely associated with the Amal Movement and March 8). The Civil Service Board may also play a future hiring and training of public employees in the sector (headed by Khalid Kabanni, a Sunni who is affiliated with Future Movement and March 14). Director General of the Prime Minister Office is judge Suhail Bouji, a Sunni Muslim who leans toward March 14, but maintains a close ties with all parties.
 - Ministry of Energy and Water, where the PA operates has a vacant General DG seat, but an active DG of Facilities Mr. Sarkis Hlais, a Christian Maronite who is close to the Marada party.
 - Ministry of Environment, which is to be involved in the SEA, in approving prequalification and monitoring operators is headed by DG Berj Hatjian, a Christian Orthodox who is closely associated with the Armenian Tashnak party.
 - Ministry of Finance, which will be involved in helping determine taxes as well as auditing public revenues and expenditure, is General Director Alan Bifani, a Christian Maronite who is viewed as a close associate of previous President Emile Lahoud and currently close to MP Michael Aoun.
 - Ministry of Transportation and Public Work, which is responsible in determining EEZ, its DG is currently vacant.
 - Ministry of Defense, which has taken increasing role over the technical support in maritime delamination is headed by Christian Maronite and Army Chief John Kahwaji. Three branches: army, navy, and air force. Navy is poorly established or equipped.

- Ministry of Interior and Municipalities has six directorates. The most relevant to security matters are the Internal Security Forces headed by the Muslim Sunni Colonel Ashraf Al-Rifi, who is seen as a close associate to the March 14/Future Movement camp and the General Security headed by Muslim Shia and Major General Abbas Ibrahim, who is believed to be closely associated with Hezbollah and Amal Movement (<http://www.general-security.gov.lb/getattachment/a9e81aea-7552-4c25-9f3d-42dc3102f765/CV1.aspx>).
- Ministry of Foreign Affairs and Diaspora is taken closer role in negotiating disputed maritime borders, administered by the Shia and Amal Movement close associate DG Haytham Joumaa.
- Ministry of Justice that might take a crucial role in future arbitration and dispute resolution is administered by the Sunni and March 14 leaning DG Omar Al Natour.

13 ANNEX 3: WORLD BANK KEY GOVERNANCE INDICATORS

Lebanon

Comparison between 2002, 2006, 2007, 2010, 2011



Country's Percentile Rank (0-100)

Source: Kaufman D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicator Methodology and Analytical Issues*

Note: *The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.*

14 ANNEX 4: NGOS AND RESEARCH INSTITUTIONS

14.1 OVERVIEW

NGOs, CSOs, and CBOs. The number of registered NGOs in Lebanon is estimated at approximately 5,000. Although reliable, up-to-date statistics are hard to come by, it is believed that their numbers increased significantly after 2005 due to a less restrictive environment in the aftermath of Syrian withdrawal and an influx of donor funding. Today, Lebanese NGOs have disparate capacity levels, geographic reach, and technical focus areas. An exhaustive list of registered NGOs in Lebanon can be found at the Lebanese Ministry of Social Affairs: <http://www.socialaffairs.gov.lb/jam3iat-ahdaf.aspx> They can generally be categorized as follows:

Large, well-established, and well-funded organizations tied to political figures, which tend to target service delivery to political constituencies. These include the “big four”—Hariri Foundation, Rene Moawad Foundation, Safadi Foundation, and Azm and Saade (associated with Najib Mikati). At the same time, these

entities offer technical capabilities in areas such as agricultural development and education, which have been tapped by donor agencies to deliver results outside their traditional support base.

Beirut-centric advocacy organizations that bring specialized expertise in areas such as electoral reform, the rights of people with disabilities, human rights, women's issues, and the environment. These include organizations that operate on a non-confessional, non-partisan agenda, with well-established networks to civic and government stakeholders and a relatively sophisticated understanding of advocacy.

Religious and charitable NGOs largely targeting certain geographic areas, which often implies certain confessional groups. Hezbollah notably operates a network of organizations that deliver a variety of economic, health, education, and social services, and provides a means for cementing its popular base in Shi'a communities.

Community or regionally based organizations that promote local development, service delivery, and civic activism, often but not always through a non-confessional, non-partisan agenda. These entities typically act as a conduit for channeling resources to communities through a broad range of activities that rarely fit into a clear strategic framework.

A portal to Lebanese NGOs is here: <http://daleel-madani.org>

14.2 PETROLEUM-SECTOR-RELEVANT NGOS

- **The Lebanese Center for Policy Studies (LCPS)** was established in 1989, and is a Beirut-based think-tank engaging in publications research, training and advocacy. Politically independent. currently led by Dr. Sami Atallah. Its scope of research activities encompasses such issues as governance and public policy in post war Lebanon: electoral and parliamentary studies, administrative decentralization, local governance, judiciary reforms, and state-civil society relations, among others. Its objectives include providing decision makers, activists and concerned citizens with accurate, actionable and independent information. Its board members include Paul Salem, Ziad Baroudi. It is funded by Swiss Foundation, Open society, Ford Foundation., IDRC among others. LCPS currently is involved with two projects relevant to the petroleum sector.
- **Governing the Gas Sector: Averting the Resource Curse in Lebanon. (IDRC funded)**
 - Two year research project aimed at providing a roadmap for institutional and policy reform in order to inform and influence policy debate on gas.
 - Policy research component: descriptive studies of international experience ; how can Lebanon address challenges linked to its the petroleum sector : geopolitical challenges, regulatory aspect of the gas sector (institutional arrangement, licencing issues, PA and how they will work). Management of reserves is a later part of the project. Ten projects will be conducted.
 - The project intends to produce book , short policy briefs aimed to communicate policy ideas in Arabic and English, working group reports, a webpage as resource hub of collected information on gas in Lebanon
- **Knowledge Hub** . LCPS and International Revenue Watch (RWI) are planning to develop a Knowledge Hub in order to provide knowledge and promote effective and accountable management of the extractive industries (oil, gas and minerals) sector in the MENA region. This will not focus on Lebanon, but is likely to garner expertise and documentation in Lebanon.
- **International Revenue Watch – Lebanon.** Also mostly using Beirut as a hub for the region. But they have some projects running in Beirut. Have projects with LCPS, and starting perhaps with LTA.
- **The Lebanese Transparency Association (LTA)** was established in May 1999, and is a local chapter of Transparency International (TI). LTA has 4 programs; Democratization and Public Accountability; Promoting Access to Information; Transparency in the Private Sector; and Youth against Corruption. Their work on promoting access to information is most relevant to the petroleum sector. LTA has

concentrated on governance issues thus far. Active extractive industries will most likely direct their attention towards petroleum relevant issues.

- **Publish What You Pay (PWYP).** Involvement in the MENA region is relatively new, and its regional offices are situated in Lebanon. However, as the extractive industries are in their embryonic phase, PWYP works primarily with the rest of the MENA region. EITI implementing countries in the MENA (Iraq, Yemen). PWYP are trying to make Lebanon a target, but are presently not optimistic
- **Legal agenda.** NGO established in 2009, operated by (young) lawyers, monitoring law and public policy in Lebanon. They run a web-page with weekly updated newsletters. Studies and a quarterly magazine. They also organize seminars and conferences.
- **Centre for Arab Research and Development (CARD)** is a non-profit NGO founded in 2008 by scholars and practitioners with the aim of bridging the gap between research and practice in human sustainable development in the Middle East. CARD activities include advancing scientific knowledge, disseminating research findings, advocating policies, conducting training, and providing consultancies.

OTHER ENTITIES THAT MAY BE RELEVANT TO THE PETROLEUM SECTOR

Arab Region Parliamentarians against Corruption (ARPAC) its Lebanese branch (LEBPAC) has been engaged in working on the following three different programs: Transparency in Budget Revenues in the Arab Region Including Lebanon; United Nations Convention Against Corruption (UNCAC) in the Arab Region; and Code of Conduct for Parliamentarians.

Special Investigation Commission (SIC) at the Central Bank In order to adhere to international standards against money laundering, the Central Bank established the Special Investigation Commission (SIC) in 2001. SIC operates according to 25 out of the 49 provisions of the international standards on the scope of money laundering issued by the Financial Action Task Force (FATF), International Monetary Fund (IMF), and the World Bank. The international institutions, FATF, World Bank, and IMF were supposed to conduct an evaluation of SIC's work in 2007.

15 ANNEX 5: OVERVIEW OF DONOR SUPPORT TO GOL

15.1 OVERVIEW

Major donors to the GoL are the EU, the USA, various embassies: British, Netherlands, France, US, Italy, Japan, etc., other European government programs, such as the Norwegian OfD, as well as Arab States and organizations such as the Arab Gulf Program for Development (AGFUND). Iran provides primary funding for Hezbollah and associate organizations, which is substantial considering the size of beneficiaries and their projects. There are many international organizations that donate to civil society groups in Lebanon such as Save the Children, Ford Foundation, etc. There are 40 UN agencies, funds, programmes and offices in various domains.

Many UN entities have established offices and regional headquarters in Beirut, such as the Economic and Social Commission for Western Asia (UNESCWA) and the UN Education, Scientific, and Cultural Organization (UNESCO). Other UN agencies have been active in assisting Palestinian refugees for decades, most significantly the Relief and Works Agency (UNRWA) that serves 455,000 registered Palestinians in 12 camps throughout different regions in Lebanon. Many others have provided extensive assistance and support to the Lebanese government and population such as the Development Program (UNDP), the Office of the High Commissioner for Human Rights (UNOHCHR), the High Commissioner for Refugees Agency (UNHCR), Human Settlements Programme Agency (UN-HABITAT), World Health Organization (WHO), International Labour Organization (ILO), and the Interim Forces in Lebanon (UNIFIL), among others. All UN agencies in Lebanon are members of the Country Team (UNCT) that coordinate efforts among the different teams.

There have been several recent major grants provided to assist Lebanon in its various developments such as U.S. government assistance to the Lebanese Army and Security Forces, which amounts to an annual aid of about \$100 million dollars since 2007. Recently, USAID granted \$30 million USD to municipal development in addition to its annual \$100 million USD assistance to a variety of economic and civil society programs. The EU

has been also active in financial assistance. It recently donated 30 million EUR to strengthen local governments in Lebanon. This is in addition to its many funded programs under various agencies such as EUAID.

15.2 PETROLEUM-SECTOR-RELEVANT DONOR ACTIVITIES

International Development Research Centre (Canada)

- Funding for two-year research program through the Lebanese Centre for Policy Studies (<http://www.lcps-lebanon.org/index.php>)
- Topic: "Governing the Gas Sector: Averting the Resource Curse in Lebanon"
- Intended to provide research basis for institutional and policy reform in the gas sector in Lebanon, including policy briefs, a website, and working group reports in English and Arabic

EU: Support to Reform in Environmental Governance

- Grant to strengthen Lebanon's ability to combat industrial pollution, and to conduct inspections and enforce environmental laws and regulations
- Focus on environmental fiscal reforms, environmental policy, internal administrative reform, and inspection and enforcement
- Grant agreement in 2012, expected to begin in April/May 2013

Switzerland (Swiss Embassy)

- Strengthen disaster risk management in Lebanon
- Grant (\$800000) agreed 2012

International Finance Corporation (IFC)

- Committed \$1 billion USD to a variety of investment and technical assistance projects, aimed at improving the investment climate and reducing poverty
- Particular areas of focus: sustainable energy finance, corporate governance, entrepreneurship (especially among women), SME access to financial services

World Bank

- Support to energy sector in cooperation with Agence Française de Développement

Partnership for Lebanon (Coalition of US Companies)

- Support from Cisco, GHAFARI Inc., Intel Corporation, Microsoft, and Occidental Petroleum Corporation
- See, e.g. http://csr.cisco.com/cdnorigin/media/documents/Partnership-for-Lebanon-Executive-Brief_129739141854794071.pdf
- Philanthropic effort aimed at promoting economic development in Lebanon through ICT infrastructure improvements, internships at coalition companies for Lebanese youth, and microloans for local entrepreneurs

15.3 EXAMPLES OF EUROPEAN, WORLD BANK, AND UN FUNDS PROVIDED TO THE LEBANESE GOVERNMENT AS OF 2012

Donor	Program Name and Dates	Program Category	Amount (if available)	Description
EU	Parliamentary Strengthening Program, Westminster Foundation for Democracy, 2011-2013	Parliament	€625,000	Support to Parliament's Finance and Budget Committee to strengthen financial oversight and to Administration and Justice Committee to support legislative functions; exchanges between MPs from the UK and Lebanon.
EU and UNDP	Modernization of Lebanese Justice System, UNDP, 2009-2013, €10 million	Rule of Law	N/A	Support implementation of the Lebanese Ministry of Justice's (MOJ's) IT Master Plan; reduce cost of justice; improve access to

				information (through help desk at Palace Court of Beirut, publication of court fees, and expansion of MOJ e-library).
EU and UNODC	Transfer of Prison Management from MOIM to MOJ, 2008-2012	Rule of Law	N/A	With UN Office on Drugs and Crime (UNODC), assisted MOIM in transitioning prison oversight to the MOJ
EU	Prevention and Rehabilitation of Victims of Torture and Other Ill-Treatment, AJEM, 2009-present	Rule of Law	N/A	Support the rights of detainees during police custody, pre-trial detention, and incarceration; improve detention procedures; work with security forces to promote respect for human rights; refurbish arrest centres.
EU	Planned program in collaboration with MOJ	Rule of Law	€5 million	Promote judicial reform and independence of the judiciary; capacity-building assistance to High Judicial Council, Judicial Training Institute, Judicial Inspections Unit, and Council of State.
EU	Local Governance (LOGO)/Sharaka Project, OMSAR, 2004-Aug 2011	Local Governance	€13 million	Establish local development offices in 12 unions of municipalities; help elaborate local development plans; set up partnerships between municipal unions and European regions/cities; implement priority projects in agriculture, environment and tourism.
EU	Cooperation in Urban Development and Dialogue (CIUDAD), 2009-2013	Local Governance	N/A	Enhance capacity of local authorities to promote sustainable urban development; foster partnerships between 8 Lebanese municipalities and EU/Arab countries, local NGOs and universities.
EU	Non-State Actors and Local Authorities in Development, 2011-2013	Local Governance	€250,000	Support development initiatives implemented by municipalities or municipal unions; facilitate dialogue between civil society networks and local authorities; strengthen the capacity of local authorities to address citizen needs.
EU	Support for Local Development in North Lebanon	Local Governance	\$4.3 million USD	Assist communities in the North in managing agricultural and natural resources; promote participatory processes in municipalities and municipal unions to define local priorities and projects.
EU and Italian Cooperation	Planned program to enhance the financial capacity of municipalities, 2011-2013	Local Governance	€20 million	Modernize municipal administration and strengthen central support to municipalities; enhance the financial capacity of municipalities; establish a Municipal Development Fund to complement public transfers to municipalities.
EU	Reinforcing Human Rights and Democracy (AFKAR III), OMSAR, 2011-2014	Civil Society	€10 million	Support CSOs and the public sector in advancing human rights; increase public participation in decision-making; improve the protection of women domestic migrant workers; improve detention conditions.
EU	CEDAW from Theory to Practice, Kafa, Arab	Civil Society	N/A	Lift Lebanon's reservations on the UN Convention for the Elimination of

	Women Organization (Jordan), and Syrian Women's League Civil Society			All Forms of Discrimination Against Women (CEDAW), especially those related to personal status codes; promote full implementation of CEDAW among judges, lawyers, and CSOs.
EU	Planned elections support program	Elections	€2 million	Promote electoral reform, with focus on pre-printed ballot, independent elections commission, women representation, and lowering of the voting age.
UNDP	Support to Civil Service Reform, OMSAR, 2003-2012	Executive Branch	\$13.9 million USD	Support administrative reform of the public administration, introduce modern management techniques and ICT in the public sector, modernize legislation, and refine e-government strategy.
UNDP	Support to Decision-Making at the PM Office, 2003-Dec 2011	Executive Branch	\$8.2 million	Enhance decision-making capacity at the PM Office; secure technical assistance to improve policy-making and support coordination with government institutions.
UNDP	Implementation Mechanism for National e-Strategy, 2010-2012	Executive Branch	\$326,000 USD	Support the PM's Office in coordinating National e-Strategy Implementation Plan; monitor progress; develop national database; and maintain national e-readiness assessment.
UNDP	Technical Assistance for Fiscal Management and Reform, 2011-2014	Executive Branch	\$8.1 million USD	Support MOF with policy analysis, process reengineering, debt management, data harmonization, and reform initiatives.
UNDP	Technical Support to Lebanese Parliament, 2011-2013	Parliament	\$375,000 USD	Strengthen research capacities of MPs and parliamentary committees; organize public hearings; establish an internship program; develop the capacities of parliament staff; establish an e-library of comparative studies; conduct legislative reviews on human rights and other issues.
UNDP and IBRD	Supporting Judiciary System in Enforcement of Environmental Legislation, 2007-Dec 2011	Rule of Law	\$497,000 USD	Review cases of environmental jurisprudence, introduce environmental course at the Judicial Training Institute and MOJ, and raise awareness of environmental issues.
UNDP	Consensus building, Civil Peace, and Constitutional Strengthening, 2008-2012	Civil Society	\$839,000 USD	Support dialogue, civil peace and constitutional strengthening through technical assistance, knowledge resources, and research support to government and CSOs.
UNDP	Conflict Prevention and Peace-building in North Lebanon, 2009-2012	Civil Society/Local Governance	\$2.5 million USD	Promote conflict prevention tools between Palestinian and Lebanese communities in the North (Akkar and Tripoli), implement socioeconomic development interventions, promote youth and women's empowerment through participation in local development and peace-building.
UNDP	Regional Development Program in Akkar II, 2010-2012	Local Governance	\$500,000 USD	Strengthen capacities of municipalities, women and youth groups in Akkar to formulate and

				implement socioeconomic development initiatives.
UNDP	ART GOLD, 2007-Dec 2011	Local Governance	\$11.4 million USD	Establish local working groups (municipalities and NGOs) in various parts of the country; implement quick-impact projects (environmental, economic, cultural, social); and strengthen links between target communities and ART international networks.
UNDP	Planned program to support MOIM, 2011-2013	Elections/ Executive Branch	\$6.6 million USD	Enhance institutional capacity of MOIM in project management, ICT, and coordination; provide technical assistance in electoral law reform, modernization of the civil registry directorate, civil defence capacity building, improved road safety, enhanced participation and human rights; and environmental safety.
World Bank	Lebanon Emergency Fiscal Management Reform Implementation, 2009-Sept 2011	Executive Branch	\$4 million USD	Support implementation of reforms related to public expenditure and debt management as part of broader program of reforms presented by the GOL at the Paris III donors' conference; strengthen MOF macroeconomic policy analysis; and strengthen debt and aid management.
World Bank	Second Emergency Social Protection Implementation Support Project, 2008-2012	Executive Branch	\$6 million USD	Support critical reforms in the social sectors; strengthen social safety nets; improve claims processing and payment systems at the National Social Security Fund (NSSF) and Ministry of Public Health; enhance performance-based planning and budgeting in the Ministry of Education.
World Bank	Emergency Power Sector Reform Capacity Enforcement, 2007-2012	Executive Branch	\$8 million USD	Accelerate the implementation of electricity sector reforms and restructuring of Electricite du Liban (EDL) by enhancing the capacity of Ministry of Environment and Water (MOEW), EDL, and the multi-ministry higher-level committee.
World Bank	Municipal Infrastructure, 2006-Dec 2011	Local Governance	\$30 million	Support basic services and priority public infrastructure, promote local economic recovery and development, and build the capacity of target municipalities.
Italian Cooperation and ILO	Strengthening of National Strategy to Combat Child Labour, 2009-2011	Executive Branch	€600,000	Support the GOL (MOSA, MOJ, Ministry of Labour, Ministry of Education, MOJ, and municipalities) in legislation and capacity building for the implementation of international working standards, develop intervention models to combat youth crime, and assist families in Tripoli and Akkar to prevent child labour.
Italian Cooperation	Integrated Local Development in Tyre, 2009-2011	Local Governance	€1.6 million	Provide institutional support to 7 municipalities in Tyre in water, environment, and cultural heritage management; promote dialogue and

				social participation.
Italian Cooperation and UNICEF	Adopt a Village Program, 2009-2011	Local Governance	€1.2 million	Assist three pilot villages in Akkar with strategic planning on local development, with a focus on children's wellbeing, to reduce social exclusion in marginalized areas.

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ENDNOTES

¹Due 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 2-300 000 Syrians foreign workers in Lebanon. The official numbers of Syrian refugees in February 2013 amount to 261 000. The Lebanese diaspora is estimated to 12-15 million, a majority of whom are Christians.

² Figuié Le point sur le Liban 2012.

³ GNI per capita (Atlas method) 2011 at 9140\$ per capita (Source: World Bank, World Development Indicators). UNHDI \$ 13076

⁴ UN Human Development Index.

⁵ Blanche 2013.

⁶ US Energy Information Administration, Norway,
<http://www.eia.gov/countries/cab.cfm?fips=NO>.

⁷ 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.

⁸ Lebanese AnNahar newspaper report. Feb. 2013

⁹ http://lebanon-exploration.com/Leb_1st_Licensing_Rnd.htm.

¹⁰ <http://www.lebanon-exploration.com/Conferences.htm>.

¹¹ Daily Star 22/9.12. This was also confirmed by key informants.

¹² 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>.

¹³ Shi Jiuyong, Maritime Delimitation in the Jurisprudence of the International Court of Justice, 9 Chinese J. Int'l L. 271 (2010).

¹⁴ See Lebanon Ministry of Public Works and Transportation, Map (Jan. 17, 2007), <http://www.nowlebanon.com/Library/Files/ArabicDocumentation/Varieties//MAP-28.jpg>.

¹⁵ UN Security Council Resolution (UNSR) 1701

¹⁶ Associated Press 01.10.2011. UN says will help Beirut with maritime border, protect gas.

¹⁷ See UN Maritime Space: Maritime Zones and Maritime Delimitation,
<http://www.un.org/depts/los/LEGISLATIONANDTREATIES/STATEFILES/LBN.htm>.

¹⁸ 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.

¹⁹ Republic of Cyprus, Ministry of Commerce Industry, and Tourism,
<http://www.mcit.gov.cy/mcit/mcit.nsf/All/A6D222B09D72E659C2257441002EE9BE?OpenDocument>.

²⁰ The Lebanese foreign minister protested in a letter to the UN Secretary-General Ban Ki-moon, calling the agreement "a flagrant attack on Lebanon's sovereign rights over that zone," which "could imperil international peace and security". Adnan Mansour, Minister for For. Aff. & Emigrants, Letter to the Secretary-General of the United Nation, U.N. Doc. 2082.11D (June 20, 2011)

²¹ Matt Nash, *Points of Contention*, NOW Lebanon (July 13, 2011),

²² Nizar Abdel-Kader, *Potential Conflict Between Lebanon and Israel Over Oil and Gas Resources: A Lebanese Perspective*. Defense Magazine (Oct. 1, 2011),
<http://www.lebarmy.gov.lb/article.asp?ln=en&id=29445>

²³ Hassan Lakkis, *Negotiation Blunders Jeopardize Oil and Gas Campaign*, Daily Star (July 14, 2011), <http://www.dailystar.com.lb/News/Politics/2011/Jul-14/Negotiation-blunders-jeopardize-oil-and-gas-campaign.ashx#axzz1c3mLPonW>.

²⁴ The Ministry of Public Works and Transportation dispatched a delegation consisting of two engineers to negotiate the agreement on behalf Lebanon. When the Cypriot ambassador later contacted the Lebanese MfA to inform about the agreement with Israel, this 'contact' was not picked up by Lebanese authorities, seemingly due to confusion about procedures and responsibilities.

²⁵ Zeina Karam, *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.

²⁶ Wassim Mroueh, *Lebanon to Fight Israel at U.N.*, Daily Star (Leb.) (July 11, 2011), <http://www.dailystar.com.lb/News/Politics/2011/Jul-11/Lebanon-to-fight-Israel-at-UN.ashx#axzz1ZtdbDoni>.

²⁷ Mohammed Zaatari *Sleiman calls for defense strategy to protect oil wealth* Daily Star 19.01.2013

²⁸ Landau: *Israel Would Defend Off-shore Gas Find With Force*, Jerusalem Post (June 27, 2010), <http://www.jpost.com/Israel/Article.aspx?id=179620>.

²⁹ *Netanyahu Vows to Defend Med Gas Fields*, Cumhuriyet (Jan. 19, 2011), <http://www.cumhuriyet.com/?hn=209634>.

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.htm?DisplayMode=print.

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

³² *Mansour Discusses Maritime Borders With Turkish Envoy*, NOW Lebanon (Oct. 4, 2011), <http://www.nowlebanon.com/NewsArticleDetails.aspx?ID=318117#ixzz1ZvBZtQRI>.

³³ Cypriote domestic law is consequently more protective of Israeli rights than Lebanese claims. Israel may bring cases before Cyprus legal entities, including contesting the ownership of the resources.

³⁴ Blanche 2013

³⁵ *Qabbani Calls for Establishment of Oil and Gas Committee*, Daily Star (Sept. 28, 2011), <http://www.dailystar.com.lb/News/Politics/2011/Sep-28/149889-qabbani-calls-for-establishment-of-oil-and-gas-committee.ashx#axzz1ZtdbDoni>.

³⁶ On 13 March 1936, the French High Commissioner Damien De Martel issued Decree No 60 LR. The Decree recognizes eighteen sects in Lebanon – twelve Christian, five Muslim, and one Jewish (Zayd El-Zein 2010a)

³⁷ Khattab 2010

³⁸ An examination published by local and Muslim dominated press agency as-Souhfa in 1984 concluded that 60% were Muslims, 40% Christians. A CIA rapport from 2004 estimated 70% to be Muslims and 30% Christians. The CIA factbook on Lebanon provide the following numbers (but no sources): Muslim 59.7% (Shia, Sunni, Druze, Isma'elite, Alawite or Nusayri), Christian 39% (Maronite Catholic, Greek Orthodox, Melkite Catholic, Armenian Orthodox, Syrian Catholic, Armenian Catholic, Syrian Orthodox, Roman Catholic, Chaldean, Assyrian, Coptic, Protestant), other 1.3%. The Lebanese Ministry of Interior basing itself on the number of votes from the last elections, has concluded that Muslims constitute 52 % of the population, while the Christians amount to 44,8%. The ministry of Interior is currently headed by Charbel, a Christian Maronite.

³⁹ Article 24 of the Lebanese Taif Constitution provides that parliamentary seats in the Council of Deputies shall be divided evenly between Muslims and Christians and proportionally among sub-sects

⁴⁰ Article 95 of the Constitution, which calls for political deconfessionalization, preserves the even confessional distribution of level one public offices.

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- ⁴¹ The six 'leaders' are Nabih Berry, Michel Aoun, Hassan Nassrallah, Samir Geagea, Walid Jumbulat, and Saad Al Hariri (see Imad Salamey and Paul Tabar (2012). "Democratic transition and sectarian populism: the case of Lebanon," *Contemporary Arab Affairs*, pp. 497-512.
- ⁴² Salamey, I. and Tabar, P. (2012). "Democratic transition and sectarian populism: the case of Lebanon," *Contemporary Arab Affairs*, 5(4) pp. 497-512.
- ⁴³ Imad Salamey (2009). FAILING CONSOCIATIONALISM IN LEBANON AND INTEGRATIVE OPTIONS. *International Journal of Peace Studies*, 14(2) pp. 83-105.
- ⁴⁴ Samir Khalaf 2003
- ⁴⁵ Salloukh 2006. UNDP 2008
- ⁴⁶ Hudson 1988
- ⁴⁷ Jamal 2007
- ⁴⁸ Taken from the PA presentation of the governance structure XXX.
- ⁴⁹ Official Gazette. Decree no. 7968 (published on April 19, 2012 issue no. 17).
- ⁵⁰ Ref (MT). The same opinion suggested that the model with a rotating president was unlawful. The view of the Shura is advisory, and was not further followed up.
- ⁵¹ Block delineation, Strategic Environmental Assessment, Documentation and participation in licensing, PA assignment and bylaws, Application content and fees, Royalty, profit split and fees, Petroleum profit distribution and sharing, QHSE, Management and company headquarters and a decree relating to Production sharing agreement
- ⁵² Offshore Petroleum Resources Law, Article 8 (1): CoM
- ⁵³ Offshore Petroleum Resources Law, Article 8 (2): CoM
- ⁵⁴ Offshore Petroleum Resources Law, Article 9: Minister
- ⁵⁵ According to article 1 of decree 82 on the Organization of the Bureau of Accounts issued in 1983
- ⁵⁶ The budget allocated to the ministry of Justice was less than 0,8 % of the total general budget, leading Samer Ghamroun to state that at the beginning of the 21 century, 'justice seems to be the sector where the weakness of the Libanese State is most vividly expressed". Ghamroun Samer, « "Ce que font les avocats, ça ne vous regarde pas". Enquêter sur la justice au Liban : de quel droit », *Les Carnets de l'Ifpo*, 16 août 2011
- ⁵⁷ Mansour W. Mansour, Daoud Carlos Y., *Liban : l'indépendance et l'impartialité du système judiciaire*, Rapport REMDH [Réseau euro-méditerranéen des droits de l'Homme], 2010.
- ⁵⁸ See notably Arab Human Development Report 2004, noting that the number of associations in Lebanon amounted to 4600.
- ⁵⁹ Eg The Arab Organisation for Translation was established in Beirut in 1999 as an international, non- governmental, independent agency.
- ⁶⁰ In the Global Integrity Index (2009) both Lebanese Media and NGOs score 'moderate' (70+ of 100)
- ⁶¹ Lara Khattab 2010
- ⁶² Osama Habib: Bassil : Lebanon will drill for gas in 2015. Daily News 16.02.2013
- ⁶³
- ⁶⁴ Beirut (Beirut), Mont-Lebanon (Baabda), North Lebanon (Tripoli), South Lebanon (Saida), Bekaa (Zahlé), Nabatieh (Nabatieh)
- ⁶⁵ UNDP Report 2008
- ⁶⁶ Div. Executive magazine art. (+ Blanche)
- ⁶⁷ Mohammed Zaatari Sleiman calls for defense strategy to protect oil wealth Daily Star 19.01.2013
- ⁶⁸ Figure taken from the NEPA-presentation, PA February 2013
- ⁶⁹ Article 89 of the 1926 Constitution
- ⁷⁰ Offshore Petroleum Resources Law (Ratified on August 17th, 2010). This text relies on an unofficial English language translation of this law.

⁷¹ An early version of a draft proposal prepared by the drafting team was suddenly presented by a MP in Parliament as a law proposal. The drafting team was allowed to update and revise the draft before it was presented. Certain provisions – such as the structure and independence of the PA – were subject to vivid debate. Some changes were also made to the draft in Parliament.

⁷² The division between off-shore and onshore was made for reasons of expediency, as onshore regulation would introduce an additional set of challenges that did not need to be settled to launch the off-shore sector.

⁷³ Offshore Petroleum Resources Law, Article 11: Reconnaissance License

⁷⁴ Offshore Petroleum Resources Law, Article 16: Application Content and Application Fee

⁷⁵ http://www.lebanon-exploration.com/Downloads/LIPE_2012/Presentations/MEW-B2-Law_Regulations.pdf.

⁷⁶ Offshore Petroleum Resources Law, Article 1: Definitions

⁷⁷ Lebanon Petroleum Activities Regulations, Chapter 1 (7). Reference from presentation “IOC’s in the Lebanese Law and Regulations”, available at <http://www.lebanon-exploration.com/Conferences.htm>.

⁷⁸ Lebanon Petroleum Activities Regulations, Chapter 1 (8) Reference from presentation “IOC’s in the Lebanese Law and Regulations”, available at <http://www.lebanon-exploration.com/Conferences.htm>.

⁷⁹ http://www.lebanon-exploration.com/Downloads/LIPE_2012/Presentations/MEW-B2-Law_Regulations.pdf.

⁸⁰ Offshore Petroleum Resources Law, Article 18: Selection of qualified Applicants for Negotiation

⁸¹ Obligation to have a local partner (Myanmar) or preference for consortiums with local partners (Afghanistan) exists in various jurisdictions.

⁸² Offshore Petroleum Resources Law, Article 67: Local content. During Drafting : how does this article match other Lebanese laws. Technical bases of interaction : fine. (SH)

⁸³ Offshore Petroleum Resources Law, Article 5: Authorisations

⁸⁴ Offshore Petroleum Resources Law, Article 65: Agreement between Right Holders and contracts

⁸⁵ Nayla Comair-Obeid, Lebanon, in Arbitration Guide (IBA Arbitration Committee), p.19.

⁸⁶ Offshore Petroleum Resources Law, Article 40 : Sale of Petroleum

⁸⁷ Offshore Petroleum Resources Law, Article 42 : Entitlements

⁸⁸ Offshore Petroleum Resources Law, Article 44: Production Split

⁸⁹ Offshore Petroleum Resources Law, Article 43: Royalty

⁹⁰ Offshore Petroleum Resources Law, Article 41: Area Fee

⁹¹ Offshore Petroleum Resources Law, Article 6: State Participation

⁹² Offshore Petroleum Resources Law, Article 6: State Participation

⁹³ Offshore Petroleum Resources Law, Article 45: Taxes

⁹⁴ Petroleum Sector, Legal and Institutional Framework. Available at: <http://www.lebanon-exploration.com/Conferences.htm>.

⁹⁵ Available at OGEL regulatory database, www.ogel.org.

⁹⁶ A general list of these is presented in C. Duval, H. Le Leuch, A. Pertuzio and J. Weaver, *International Petroleum Exploration and Exploitation Agreements: Legal, Economic and Policy Aspects* (New York: Barrows 2009), p. 28.

⁹⁷ For examples from over 30 upstream regimes around the world, see E. Pereira and K. Talus, *Upstream Law and Regulation: A Global Guide* (Forthcoming, Globe Law 2013).

⁹⁸ An example of this is Tunisia, where there are two agreements that can be used in *upstream* oil and gas: Concession agreements, where the oil and gas company is the holder/co-holder of the permit/concession and Production Sharing Contracts, concluded between the NOC (ETAP: Entreprise Tunisienne des Activités Pétrolières) which is the holder of the permit and all the concessions issued from and a service provider (Contractor). Also Uganda uses the hybrid system where the PSA is an addition to an exploration license to explore for and find petroleum and a

production license to commence production. Similarly, the Russian system uses both options and the subsoil rights could be provided to the interested party through a licensing regime or through the conclusion of a PSA. To complete the formalization of the right of subsoil use, within the 30 days after the execution of PSA Rosnedra also issues the subsoil license. In this case the license agreement reflects the general terms and conditions of the PSA.

⁹⁹ In Egypt, the granting instrument is called a concession agreement, but is technically a PSA. The Sudan's upstream is based on an Exploration and Production Sharing Agreement with parameters depending on the potentiality and attractiveness of the geological area under consideration even though it is negotiable. Similarly, Qatar is using Exploration, Production Sharing Agreements and Development, Production Sharing Agreements. Iraq uses service contracts, which have certain PSA like elements.

¹⁰⁰ Offshore Petroleum Resources Law, Article 3: Principles for the Management of Petroleum

¹⁰¹ United Nations Development Program (UNDP) and the Lebanese Transparency Association (LTA), *Towards a National Anti-Corruption Strategy* (2008), 33, *hereinafter* UNDP (2008).

¹⁰² ANIMA Investment Network, *Mediterranean Investment Map: Sectoral Guidebook on Public Investment Policies in the Mediterranean*, Study No. 7 (January 2010), 94, *hereinafter*, *Mediterranean Investment Map* (2010).

¹⁰³ UNDP (2008), 20

¹⁰⁴ UNDP (2008), 21.

¹⁰⁵ UNDP (2008), 33-34.

¹⁰⁶ UNDP (2008), 34.

¹⁰⁷ The Marrakech Task Force on Sustainable Public Procurement led by Switzerland from 2006 to May 2011 has developed an approach for implementing Sustainable Public Procurement in both developed and developing countries.

<http://www.unep.fr/scp/marrakech/taskforces/procurement.htm>

¹⁰⁸ The Living Conditions Index (2004), estimates that 5% of the households live in extreme poverty (as compared to 7% in 1995) and 19% of households live in relative poverty (28% in 1995).

¹⁰⁹ Decree 7426/2012.

¹¹⁰ *Sustainable Development in Lebanon : Status and Vision*. National Report to the United Nations Conference on Sustainable Development (Rio + 20) , Republic of Lebanon, p.16

¹¹¹ The National Social Development Strategy of Lebanon. Ministry of Social Affairs, 2011

¹¹² The plan targeted 7 main objectives: (1) managing public debt and financial reform; (2) revitalizing the private sector; (3) enhancing infrastructure; (4) human development; (5) regional and rural development; (6) institutional and administrative reform; and (7) other support factors.

¹¹³ *Mediterranean Investment Map* (2010), 97.

¹¹⁴ *Ibid.* 94.

¹¹⁵ *Ibid.* 97.

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.* 96.

¹¹⁸ *Ibid.*

¹¹⁹ *Ibid.*

¹²⁰ *Ibid.*

¹²¹ *Ibid.* 97.

¹²² *Ibid.* 105.

¹²³ World Bank, *Doing Business 2013: Lebanon*, 64.

¹²⁴ *Mediterranean Investment Map* (2010), 105.

¹²⁵ *Ibid.* 105.

¹²⁶ The index is based on 25 performance indicators tracked across several policy categories covering environmental, public health and ecosystem vitality. University of Yale 2012 Environmental Performance Index <http://epi.yale.edu/epi2012/rankings>.

¹²⁷ Lebanon has ratified more than a dozen conventions and treaties related to the environment (CBD, UNFCCC, UNCCD, Stockholm)

¹²⁸ Decree 8157 dated 18/05/2012

¹²⁹ Offshore Petroleum Resources Law, Article 60: Environmental Protection and Related Measures

¹³⁰ Offshore Petroleum Resources Law, Article 7: Preparations for Licensing. Phase one of the Strategic Environmental Assessment was completed in April 2012. http://www.lebanon-exploration.com/Downloads/Presentations/Lebanon_NAPE-06Feb13c.pdf.

¹³¹ CoM Decision 103/2010. The Committee comprises 22 members representing the ministries of Defence, Interior, Health, Transport, Education and MEW, in addition to the Civil Defence and the Lebanese Red Cross.

¹³² UNESCO (2011) estimates of education attainment distribution.

¹³³ The National Social Development Strategy of Lebanon. Ministry of Social Affairs, 2011

¹³⁴ Only persons between the age of 35 and 58 were allowed to apply. One was just over, the other right under.

¹³⁵ Blanche 2013.

¹³⁶ See e.g. World Bank/IMF 2006, www.transparency.org

¹³⁷ Suleiman 2003

¹³⁸ El- Hoss 2010c, 301-302

¹³⁹ Suleiman 2003

¹⁴⁰ UNDP (2008)

¹⁴¹ UNDP (2008)

¹⁴² Arab Human Development Report 2003

¹⁴³ Ref

¹⁴⁴ Global Integrity Report, Lebanon 2009

¹⁴⁵ UNDP 2008

¹⁴⁶ Randa Antoun, Report LTA / UNDP "Towards a National Dialogue on Corruption in Lebanon" 2008/9.

¹⁴⁷ A national committee was established to ensure integrity and another committee is working to coordinate efforts between OMSAR and the control agencies