

Lebanon: Initial Assessment of the Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance

Laury Haytayan

Key messages

- Lebanon was already suffering a severe economic crisis, which the coronavirus pandemic has worsened. The government has appealed to the International Monetary Fund (IMF) for a bailout but is currently at the risk of experiencing food shortages.
- Oil and gas exploration activity continued amid the lockdown measures, but in April the government confirmed that Total did not find commercially viable gas during its drilling at Lebanon's first ever oil and gas well.
- At the end of May, Lebanon's Ministry of Energy postponed the country's second licensing round for the third time, citing the low oil price and the coronavirus pandemic as the main reasons for doing so. However, Lebanon was unlikely to strike a good deal with any potential investors because of its challenging economic, political and fiscal environment.
- Lebanon pays a high price for imported oil and diesel to generate electricity. If it continues to plan its energy policy around the prospect of discovering new oil and gas resources instead of transitioning to renewables, it will likely exacerbate the country's financial woes.

ABOUT THIS DOCUMENT

This is one of a series of country briefings produced by NRGi to summarize the evolving situation with respect to the pandemic and its economic impacts. The analysis it contains is subject to change with circumstances, and may be updated in due course.

SUMMARY OF ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

Lebanon is facing its **worst economic crisis in decades**. Much of the crisis pre-dates the coronavirus pandemic but the pandemic has undermined Lebanon's prospects for economic recovery. The Lebanese pound has lost over two-thirds of its value since January 2020 and US dollar reserves are so limited that banks have constrained withdrawals. Lebanon's failure to make economic reforms and curb corruption mean that international lenders have limited their support and the country's recovery plan is largely unfunded. The Lebanese government is currently in discussions with the International Monetary Fund (IMF) for a multibillion dollar bail out.

In response to the coronavirus pandemic, Lebanon imposed a range of lockdown measures, including restrictions on most business, closing schools and limiting public movement. In late April, when cases of COVID-19 spiked, the country suspended its efforts to **gradually ease the lockdown** and restart some economic activity. Lebanon is now re-attempting to ease lockdown.

On 20 May the prime minister, writing in *The Washington Post*, stated that Lebanon is headed for a major food crisis due to the pandemic.

IMPACT ON THE OIL AND GAS SECTOR

The coronavirus pandemic measures taken by the Lebanese government did not affect the drilling activities for Lebanon's first oil and gas well, known as Byblos-1 in offshore block four. On the contrary, the government exempted Total, the operator, from the lockdown measures and allowed work to continue with precautions taken by the local authorities to prevent the spread of the virus into the drillship. On 27 April the [minister of energy confirmed](#) that no commercially viable gas had been found at the block four well.

The next move is for Total to drill an exploratory well in block nine, which is south of Beirut, by the end of 2020 or early 2021. Before the lockdown, Total was working on the environmental impact assessment (EIA) for block nine. Lebanese law requires the company to schedule public consultations in the relevant regions as part of the EIA process. The consultations were expected midyear, and no drilling activities should commence without public consultations. It is still not clear whether the consultations can happen within the expected timeframe. If not, there will likely be a delay in the start date for drilling. Online consultation is now being [considered](#).

On 31 May, the Ministry of Energy [postponed](#) Lebanon's second licensing round for the third time, citing the low oil price and the coronavirus pandemic as the main reasons for doing so. The ministry did not give a new deadline (as it had done with the two previous delay announcements) but said that it expects to complete the second licensing round before the end of 2021. In January, the [Lebanese Petroleum Administration](#) changed the original deadline from 31 January to 30 April to allow international companies more time to apply. They then changed this to 1 June because of the pandemic.

However, the justifications for postponements do not tell the full story. Even without the coronavirus pandemic and low oil prices, it is unlikely that Lebanon would have gotten good deals from international investors, because of the poor political, economic and fiscal conditions in the country.

IMPACT ON NATURAL RESOURCE GOVERNANCE

Given the dire economic situation, there will be little public focus on oil and gas governance; with people instead focusing on the immediate crisis. With the second licensing round postponed mainly because international oil companies did not apply, Lebanon may consider establishing a national oil company (NOC) to advance oil and gas development regardless of global economic conditions. It will be important that civil society organizations (CSOs) working on the extractive sector are vigilant to the risks of poor decision-making by the authorities at this time and are ready for renewed discussions about establishing an NOC with all the challenges that come with such a move.

International non-governmental organization Publish What You Pay is leading the Extractive Industries Transparency Initiative (EITI) process in Lebanon. The EITI is a global organization that publishes annual government- and industry-based transparency reports on the oil, gas and mining sector and makes suggestions about how countries and companies can improve their extractives governance. However,

EITI progress in Lebanon has been slow and basic processes, such as the election of civil society organizations to the multi-stakeholder group, have not been carried out. This is partly due to the economic crisis, now exacerbated by the coronavirus pandemic. Additionally, momentum around the EITI process reduced after the negative results at block four.

LOOKING FORWARD

Lebanon's oil and gas sector remains an uncertain prospect. The results of block four were negative and the government has postponed the second licensing round until the end of 2021. Further, if the pandemic significantly delays drilling at block 9, the risk is that investors will pull back and Lebanon's oil and gas future will not materialize. At minimum, the pandemic will delay new discoveries or further drilling. The country needs to look at the possible scenarios and make plans accordingly.

One issue is rethinking Lebanon's energy strategy. Relying on fuel oil and diesel oil to produce electricity is not sustainable. The high price Lebanon pays for fuel is causing a major budget deficit. The alternatives are gas and renewables. The "local" gas (from Lebanon's fields) is not (yet) a reality. Imported gas needs power plants that are not yet operating. The renewable energy sector has, to date, lacked momentum and faces governance issues, mainly in relation to licensing.

In avoiding the risks associated with a fossil fuel-based future, Lebanon should give serious attention to enabling legal reforms in the renewable energy sector to expedite its development.

ABOUT THE AUTHOR

Laury Haytayan is the Middle East and North Africa program director at the Natural Resource Governance Institute (NRGI).

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