

OPES

January 2021



PUBLISH WHAT
YOU PAY

A background image showing an offshore oil rig on the left and a green and white ship, the 'NAVLA CLIPPER', on the right, both on the sea under a cloudy sky. The ship has 'NAVLA CLIPPER' and 'WIND BLD' written on its side.

Economic Impact of the Maritime Boundary Delineation

Importance of Maritime Boundary Delineation
for the Lebanese Economy

www.opeslb.org

Prepared by:

Dr. Tania Kallab

Tania Kallab, based in Lebanon, is an Adjunct assistant professor at the Lebanese American University (LAU) who holds both two Masters degrees Economics and in Business research from the Ecole Supérieure des Sciences économiques et commerciales (ESSEC) and from Université Cergy-pontoise, France, as well as a PhD degree in Business administration/ Economics from ESSEC. She has over 8 years' experience teaching and research in both academic and non-academic institutions. Tania has been holding the position of Adjunct assistant professor in Lebanon for five years whereby she has been actively engaged in research, teaching, and services within both the school of business and the department of economics. Her research interests lie at the intersection of political and institutional economy and economic development and recently entrepreneurship. She is a regular participant in local and international conferences, council meetings and by being keynote speaker in several panels. She has also lectured on Microeconomics, Macroeconomics, business economics financial accounting at LAU, Holy Spirit University, Lebanese University, as well as economics of organization and management, masters level business economics, special topics in economics and international economics related to the mediating role of institutions in the success or failure of nations, as well as BoP, CA deficits and debt sustainability, analysis of fiscal, monetary and growth policies. Aside from her academic experience she has been engaged in high impact consultancy projects including for the Ministry of Economy and the Chamber of Trade as part of the ministry economics experts' team, she contributed to the development of a policy plan to boost Lebanese exports. She is also a regular mentor and trainer with LEDA/ MERCY CORPS where she provides individuals from marginal communities' trainings and mentorship programs on how to pursue their career path. She also worked on two consultancy projects with the Talentlab where she prepared educative interviews and delivered a panel on the role of micro tourism and cultural heritage in boosting the Lebanese economy under crisis and what policies can be implemented to support small businesses. She was also assigned on a consultancy project by the municipality of Byblos to develop a comprehensive and inclusive socio-economic resilience building strategy for the city of Byblos as part of the 100 resilient cities program pioneered by Rockefeller foundation. In the aftermath she remained on a voluntarily basis, as the lead economic a development consultant for the mayor of Byblos for municipal activities. Tania closely implicated and passionate about economic issues both local and international with extensive networking, a wide-range experience in policy briefs within the scope of work with the municipality

Languages: Arabic (native tongue), Fluent in French and English.

Approved by:

Marwan Abdallah

Executive Director - OPES



**PUBLISH WHAT
YOU PAY**

INTRODUCTION ABOUT PWYP:

Publish What You Pay (PWYP) is the only global movement working to ensure that revenues from oil, gas and mining help improve people's lives. With more than 700 member organisations and 50 national coalitions, PWYP campaigns for an open and accountable extractive sector. Our shared vision is a world where everyone benefits from their natural resources – today and tomorrow.

PWYP has contributed to significant change across the extractive sector. In more than 50 countries, secretive payments to governments by extractive companies have been replaced by public reports, while more than 30 of those countries have passed laws requiring companies to publish their payments and are working with communities to ensure everyone benefits fairly from natural resources. For more information, check our website : About - Publish What You Pay (pwyp.org)

Type Of Partnership:

In resource-rich countries, extractive sector revenues can change people's lives. Spent well, they can fund huge improvements to infrastructure and services such as health care and education. But unless they are carefully tracked, these revenues don't always deliver the benefits they should. Corruption, bad management and weak governance can destroy the potential of revenues from oil, gas and mining to drive equitable development.

In Response, Publish What You Pay (PWYP) has launched a three-year project to strengthen oversight actors in Iraq, Kenya and Lebanon. All three countries are prone to corruption, but civil society organizations (CSOs), affected communities, the media and academia require financial, technical and coordination support to enable them to provide effective public oversight. Supported by the Norwegian

Development and Cooperation Agency (NORAD), the project will build capacity among oversight actors and support advocacy for accountable management of oil resources in all three countries. Lebanon needs strong oversight by civil society, affected communities and academia represented by the following partners: the Organization for Petroleum & Energy Sustainability (OPES), the Lebanese Oil & Gas Initiative (LOGI), NDU PWYP Society, and Diaries for the Ocean (DOTO) under this project so that people can demand accountability from governments and companies over extractive revenues and expenditure.

Table of Content

1. Executive summary:
 - A. Essence of the brief
 - B. Summary of key findings
2. Highlights: Boosting Growth through confidence
 - A. Maritime borders delineation a steppingstone towards rebuilding confidence
 - B. Prospects of future revenues making Lebanon officially a resource economy
 - C. Future generations wealth accumulation through the Sovereign fund
3. Introduction:
 - A. Why delineation is important (benefit/ advantage)
 - B. Background on Lebanese maritime borders delineation
 - C. Conflicts about the delineation
 - D. Updates about official negotiations
 - E. Research objective: Urgency of situation
4. Research Design:
 - A. Methods: Explain how study was conducted (proposal)
 - B. Desk review
 - MOM, Reports
 - Research papers
 - Delineation agreements
 - C. Data collection tools
 - Questionnaire
 - Key informant interview
 - Focus groups discussions
5. Data interpretation and analysis
 - A. Data results analysis
 - Results from questionnaire, FGD, KI
 - B. Results interpretation and comprehensive summary: Economic perspective
 - Why demarcation is important for the economy (benefits + advantages)
 - C. Results interpretation and comprehensive summary: Political perspective
 - Concern about conflict with Israel
 - D. Results interpretation and comprehensive summary: Institutional perspective
 - Concern about corruption in Lebanon
 - E. What questions need answers
6. Recommendations
 - A. Role of good governance, transparency and institutional quality
 - B. Role of Sovereign wealth fund
 - C. Cost of inaction and delays
7. Conclusion:
 - A. Summarize findings and data
 - B. Story assertions
 - C. Policy recommendations and next steps

EXECUTIVE SUMMARY

This study highlights the macroeconomic benefits of the delineation of the Lebanese border on the economic environment as a whole. That study is done using a participatory approach and a political, institutional, and economic inclusive approach. It shows how maritime borders delineation works as a positive component to revive a productive economic environment, rebuild trust from the international community, attract FDI's oil companies and investors. It also highlights political and institutional challenges and the cost of delays in jeopardizing such initiatives' potential benefits. It also emphasizes the importance of transparency, good governance, well-functioning institutions, and communication among stakeholders for a smooth and successful transition to a resource economy.

HIGHLIGHTS

- Maritime borders delineation a steppingstone towards rebuilding confidence
 - A. A Motive to improve functioning institutions and induce transparency
 - B. Stability across potential investors both domestic and foreign Allowing Long-Term projects to initiate
 - C. Attract investments in various sectors
- Prospects of future revenues making Lebanon officially a resource economy
 - A. Huge unexploited reserves
 - B. Extractive industries have become more important to export revenues and generate government revenues and improve livelihoods.
 - C. Diversification is a key
 - D. Inclusive growth in diversified sectors to fight poverty, unemployment
- Future generations wealth accumulation through the Sovereign fund
 - A. Sovereign fund for current expenditures, Short-term investments such as infrastructure and Long-term investments through wealth creation for future generations.
 - B. Importance of right policy action, when non-renewable resources are viewed as perpetual generators of wealth, and not as finite (time-limited) opportunities
- Sound institutions are key to succeed in delineation
 - A. Transparency and fighting corruption
 - B. Unification and updates of law
 - C. Smooth political environment

Introduction

Background:

Why delineation is important?

"You will never know [how much gas there is] until you drill a well under the sea, [but] you can make an assessment from the site we surveyed," Our assessment indicates so far there is a significant volume of gas to be discovered, and maybe even oil." Spectrum CEO David Rowlands to Daily Star August 2012.

The scale of potential developing economies has to develop their Extractive Resources further is an incremental multiple of prevailing per capital income level, with several substantial unexploited reserves. Such economies have increased, rather than decreased, in importance for many LICs and MICs. Additionally, it is anticipated that many extractives sectors will see considerable further investment in the future with high expected public returns (McKinsey Global Institute (MGI 2013)). For Lebanon, a survey made by spectrum circa 2012 revealed that Lebanon's offshore potential is likely to exceed Cyprus and Syria.

"My humble opinion based on the data that I have is that there is greater potential [for natural gas] offshore Lebanon than offshore Cyprus and offshore Syria," David Rowlands told The Daily Star over the telephone." (Daily Star, September 7, 2012)

Around the same period, several companies showed their interest in exploring Lebanon's oil and gas resources within the EEZ area of Lebanon (Meier, 2013). Such events, along with Lebanon's strategic location, accelerate not only the importance but also the urgency of resuming and finalizing international negotiations with regards to the Lebanese maritime borders delineation.

Lebanon has an offshore EEZ area that covers 22,730 sq/km (offshore magazine, Wissam Chbat et al., Lebanese Petroleum Administration, 2019), out of which 80% of waters were surveyed by 2013 (Lebanese petroleum administration, timeline 2013) and were estimated to contain 25 trillion cubic feet of gas (Meier, 2013). Following the survey results, new interests arose from several political, international, and economic entities. It is noteworthy to summarize the steps taken so far by Lebanon in the delineation process as listed by Meier (2013):

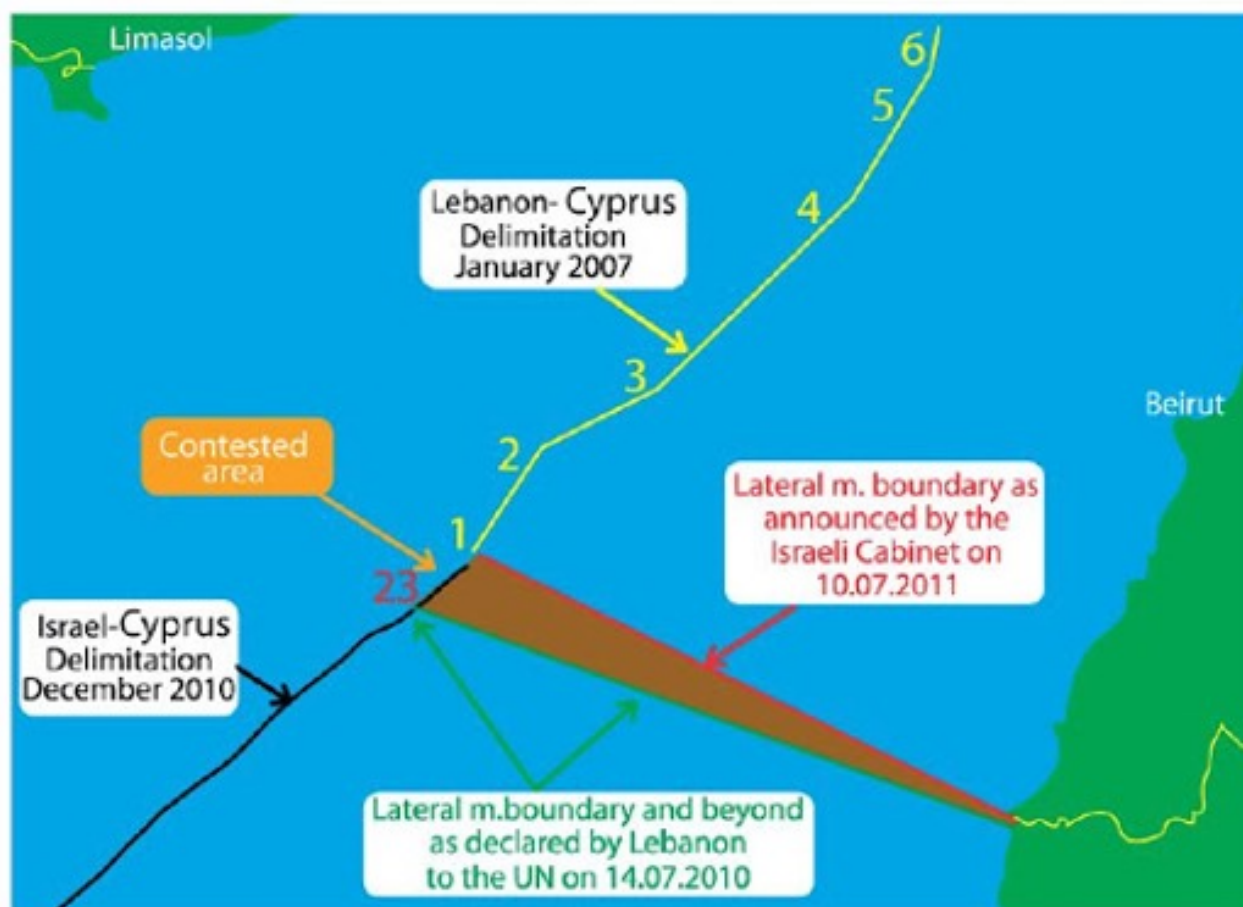
2007	2009	2010	2011
Lebanon signed its first delimitation of maritime borders EEZ with Cyprus	A newer delineation was adopted by the council of ministers (Decision N51) without ratification of the 2007 one.	Lebanon sent the 2009 delineation to the UN secretary general including the contested area of 850sqm/Km Later in 2010, a "law of petroleum resources in the maritime waters" (No. 132) was adopted by the Parliament. Such law mentions the EEZ and regulates the exploitation of petroleum resources, without identifying legally the area to be exploited.	In 2011, the Lebanese Parliament adopted "The Delineation and the Declaration of the Maritime Zone of the Republic of Lebanon" known as the Law 163, and the decree No. 6433 named "The Delineation of the Boundaries of the EEZ," which was then notified to the UN.

The dispute on Lebanon and Israel's maritime borders concerns an area of 850 square/km on the southern section of Lebanon's EEZ, as seen in Figure 1 below. In October 2020, The Lebanese authorities requested to increase the contested area to 1430/sqm/Km, almost the double (Atlantic council, November 20, 2020 and Lorient le jour, January 11, 2021). Such an ongoing dispute has economic and political motives and is directly linked to the ongoing Lebanon-Israeli conflict. Indeed, the discovery of oil and gas within the Lebanese EEZ promises to bring in significant benefits for Lebanon and neighboring coastal countries and add tension in the area, arising from disputes over delimitation of maritime boundaries overlapping claims over gas and oil resources.

The contested area's potential financial gains appear to be the main reason why exploration and exploitation have been inhibited until April 2020. In such an instance, EEZ delineation is vital in permitting Lebanon to resume and finalize excavation works and later benefit from the revenues of gas exploration. Also, such negotiations might pave the way for potential peace negotiations within the region.

As already known after the Cyprus/Israel agreement took place in 2010 violating Lebanon's rightful EEZ, Excessive talks took place in the past few months, starting with the indirect negotiations between a team representing Lebanon with one from Israel. Such negotiations took a unanimous vote from the Lebanese side, emphasizing the conflicting Lebanese parties' determination to demand the full rights over the disputed zone. "The Lebanese government should continue to demand its sovereignty rights over the disputed zone with Israel." Felicite Barrier, 2018

Figure 1: Contested area in brown



Disputed border area between Israel and Lebanon (Source: PFC Energy, Memo Petroleum Risk Manager (May 2012), reproduced in GMF, Policy Brief, June 2012) (for illustration purposes only)

Any delay in such negotiations aims at increasing uncertainty and discouraging investors. Lebanon is in dire need of finalizing agreements, keen on avoiding any delays regarding its urgent need of resources to support its already suffering economy. "This agreement will enhance Lebanon's economic chances," stated Mr. Rudy Baroudi during November 2020 discussion with OPES, NGO's and political parties on Maritime Boundaries Delimitation. Lebanon has a significant share from oil discoveries, as predicted with its proximity to gas-rich neighboring countries. With many assets at hand, such as its strategic location and its human capital wealth, it will host more significant opportunities for FDI and offshore investments than many countries.

"One can safely argue that clearly defined borders of a "region of interest" is a key criterion for a company to invest in the region's oil and gas resources." (OPES research report, 2020) To capture the urgency of the maritime delimitation, this paper seeks to carry out a qualitative evaluation to understand the standpoint of main stakeholders to ensure offshore exploration and exploitation since they are vital for Lebanon's getting out of its crisis define its future investment opportunities and government expenditures. Finally, the paper determines the direct and indirect impact of legal delineation on Lebanon's economy from three different angles: economic, political, and institutional. It also documents some lessons learned from the stakeholder's perspective. Finally, it tries to identify a common ground where strategic collaboration with implementing stakeholders could facilitate the negotiations and provide recommendations on how to build on this outstanding achievement that favors the greater interest of Lebanon.

Research design

Two critical approaches guided the evaluation design: a participatory approach, especially in the study design, a political-institutional and economic inclusive approach.

The policy paper drew on three essential methods: a comprehensive desk review component utilizing and building on the available resources such as research papers, policy briefs, interviews, delineation agreements, minutes of meetings, academic studies, and case studies.

The qualitative and participatory approach was applied to collect primary data. It comprised a mixed-method mainly through Key informant interviews, focus group discussions, and one-on-one meetings that allowed the triangulation of various data sources and a more nuanced interpretation of the project context. A summarized description of the research design and methods is found below.

Method:

Desk review

A desk review was conducted to inform the methodology and evaluation design. The review included the project proposal (alongside the changes applied). OPES research report, summary report of the round table discussion meeting with stakeholders, a summary report of the OPES conferences held with relevant political parties representatives and stakeholders, and other policy briefs.

DATA COLLECTION TOOLS

A qualitative tool was designed to evaluate the direct and indirect impact of maritime borders delineation on the various economic sectors.

A questionnaire was designed for and distributed to each of the political parties, NGOs, stakeholders' representatives and economic, legal experts, and academics. The questionnaire was view as a critical informant interview (KII). These interviews consisted of open-ended questions maintaining the political-economic and institutional angles to explore their opinion regarding the oil and gas sector and to obtain in-depth information about the context and scope of the delineation process, including opportunities, challenges, objections about the procedures, and stakeholder perspectives about the urgency and importance of delineation on the economy. A copy of the questions distributed can be found at the end of appendix A

Six separate focus group discussions (FGD) were developed with the same groups above to ensure comparability of outcomes. The methods used in FGDs were designed to be accessible and involved round table meetings with each political party and an online conference including all stakeholders.

Qualitative sampling approach

key informant interview

A set of questions was distributed to 8 political parties' representatives, 13 project stakeholders, including NGOs and legal experts, and academics, as represented in Table 1 below.

The non-political stakeholders' selection was based on a mapping done by the Lebanese Oil & Gas Initiative (LOGI) and supported by Publish What You Pay (PWYP). The mapping used different criteria for identifying NGOs to be included in a coalition of organizations willing to cooperate to work on the Oil & Gas sector's governance and the Energy sector in general. These organizations' different backgrounds bring richness to the coalition and the debate about the sector, taken from different angles of intervention. However, we must note, for the sake of this paper's credibility, that the opinions stated do not represent all potential non-state stakeholders in the sector but only those who participated in the evaluation reports. At the same time, the analysis and interpretation of the results reflect the opinion of the publisher, OPES, and the author of this paper only.

All key informants were sampled purposively. It is noteworthy that around 70% of the Lebanese population belong with or believe in a political ideology and/or a specific sectarian group. Those political parties are the biggest in the country in terms of sectarian and political representation, and they also include local authorities (government representatives).

A Response from all the participants would have been beneficial in thoroughly assessing the impact of maritime borders delineation on the Lebanese economy, including the importance of good governance and transparency practices, but that was not easy due to the unavailability of participants during the data collection process. Nonetheless, triangulation of data and the inclusion of a comprehensive desk review and the analysis of the several focus group responses has, to a certain extent with some limitations, safeguarded against this lack of responses.

Table 1: Sample for key informant interviews with stakeholders

	Political parties	Political parties with Government representative	NGO's representatives	Academics
Participants	8	6	11	12
Respondents	1	0	4	0

Focus group discussions:

Focus group discussions (FGDs) were facilitated with stakeholders and were disaggregated by political parties and NGO groups. The groups are presented in Table 2. The segregation was as follows: for each group, one FGD, then one FGD combining both political parties and NGOs. While the inclusion of all FGDs would have been preferable in building up a more comprehensive picture of stakeholders' feedback (in particular, political parties), the data collected from desk review and other methods has meant that this absence has not been deemed a significant constraint by the evaluation team.

Table 2: Sample for focus group discussions with political parties and NGOs

	Population category	Political parties	NGO's	Online conference
Participants	Number of groups	5	0	21
	Participants per group	4	0	1 to 2
	Total	20	0	25

Data interpretation and analysis

Qualitative data were transcribed and translated into English whenever needed and were then coded and analyzed manually. The outcomes were generated from the KII, FGD, MOM, and the one-on-one discussions. Additional analysis of results based on the desk review was done for any findings falling outside of the evaluation questions and thematic focus drawing primarily from established three main concerns: Economic, political, and institutional. The qualitative data has been used as a primary data source for selecting the list of evaluation questions and has also been used to triangulate the desk review findings.

The evaluation analysis is disaggregated by political parties' representatives and NGO representatives (usually one to two responses per group). Although recursive emails were sent to participants to reduce missing data, only 25% of participants responded to the questionnaire. Nonetheless, As mentioned above, the data collected from desk review, FGD, and other methods were correctly cross referenced and triangulated to mitigate the negative impact of the missing responses.

END RESULTS

This section presents the results of the direct and indirect impact of legal Lebanese maritime borders delineation on Lebanon's economy in three key sections: (1) Political parties response, (2) the civil society response (3) triangulation of results through an economic, political and institutional lens, based on both the desk review, and on the qualitative research approach:

Political parties

There is a general trend observed from political parties whereby they unanimously reported the importance and urgency of accelerating and finalizing EEZ's delineation while maintaining the full sovereign rights legally bestowed to Lebanon. Such effort will induce direct cashflows to the Lebanese economy, improve institutional perception, and serve as a buffer against further worsening the environment politically and economically. At the political class level, there is growing awareness of tensions related to the economic crisis.

Such a step would create prospects of future revenues and is heard to reduce tensions related to social cohesion that was negatively affected by poverty and unemployment. Perceptions about resuming exploration while EEZ is still not internationally recognized were mixed. Some parties were cautious, while others were more enthusiastic about resuming activities, provided that such a step occurs with transparency and under international standards.

Across parties, institutional infrastructure perceptions have worsened with lesser trust and growing fear and concerns regarding corruption, ensuring good governance practices, transparency in offshore licensing, and staff appointments. Some concerns were noted through the FGD regarding the LPA members' appointments, where three participants representing three various political parties believe that such appointments were made on sectarian and clientelist grounds.

A similar unanimous emphasis was put on the necessity of adoption, implementation, and update of laws and regulations regarding the oil and gas file to ensure credibility, reliability, and legality.

When exploring participants perceptions of a national oil company, different patterns of results were observed. Some were in favor of total control by the state, while others less trusty to the system were reluctant about nationalizing the gas and oil exploration work due to lack of trust, infrastructure, and good environment.

"We find it difficult to talk about any subject right now because of the economic crisis, the corrupted system, the insecurity."

Overall, political parties participating in government have stronger perceptions regarding the role of the government. Ideas converged on the importance of appointing experts, whether publically appointed or internationally outsourced. Such lack of trust in the public institutions' performance in general as perceived by some participants, puts further pressure on the prominent role the government should play in resolving the maritime borders dispute and in resuming explorations works in order to reduce divergence in opinions and attract some unanimity on the role bestowed to the government.

Finally, participants presented their advancements in creating a framework for future strategies on efficiently monetizing the potential revenues from the sector.

NGOS

A very similar pattern was found among NGO representatives whereby 75% of the respondents were keen on accelerating negotiations regarding EEZ because they believe that this revives a favorable economic environment, raises confidence, reduces uncertainty among investors, and establishes sovereign rights for future generations (Figure 1).

While they were skeptical about the ability of such a step to generate direct economic benefits or solve the Lebanese economic crisis (Figure 2).

FGD reported that investment in the gas and oil sectors is expected to generate long-run economic benefits in attracting investors, improving production in multiple tradeable and non-tradeable sectors. Such optimistic expectations are conditional on future resources' suitable usage based on well-studied strategy, on revenue diversification finally on an independent competent committee managing a sovereign wealth fund (Figure 3).

Almost 100 respondents reported fear and skepticism regarding a well-functioning institutional system. This has also been reflected in FGD, where all participants welcomed delimitation as a starting point while strictly emphasizing the role of sound institutions such as transparency and good governance as a prerequisite for such events' success. Participants also highlighted the political challenges faced from sectarian divisions to clientelist appointments to delays for executing decrees. They pointed out the importance of unifying the laws and applying them to reduce uncertainties.

Regarding the national oil company, participants were reported against it due to the lack of trust in the ruling class, lack of infrastructure to manage such a company, and lack of tested oil resources.

"We do not have the institutional infrastructure that one needs to regulate the national oil company."

They finally reiterate the importance of proceeding quickly with arbitration as the law favors the Lebanese case as the Israeli conflict will not resolve any time soon.

Figure 2: Impact of delineation on rebuilding confidence

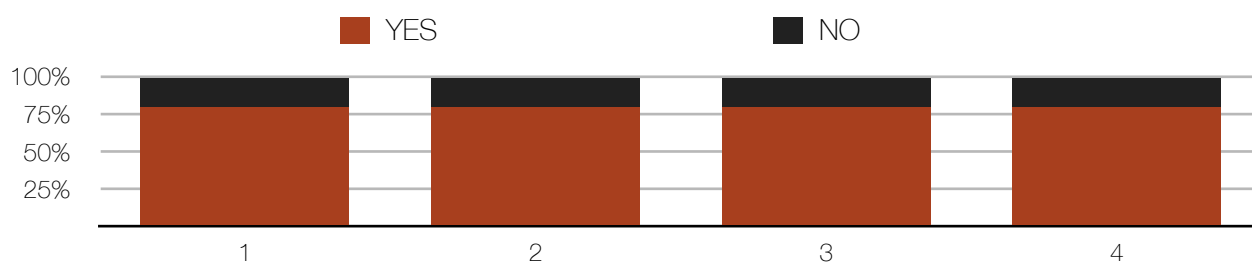


Figure 3: Direct economic return

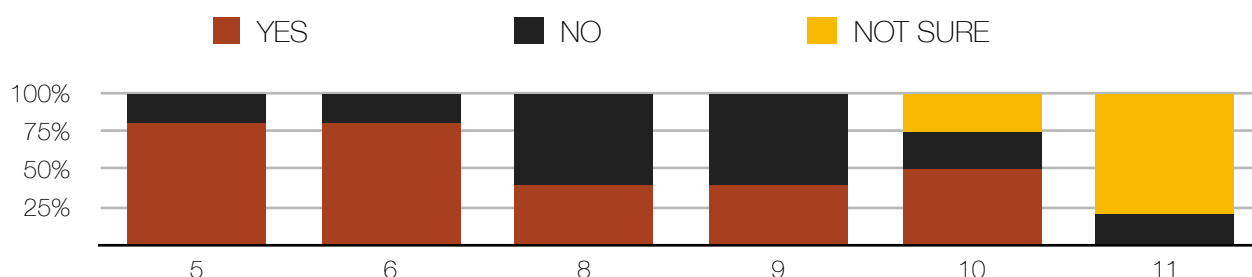
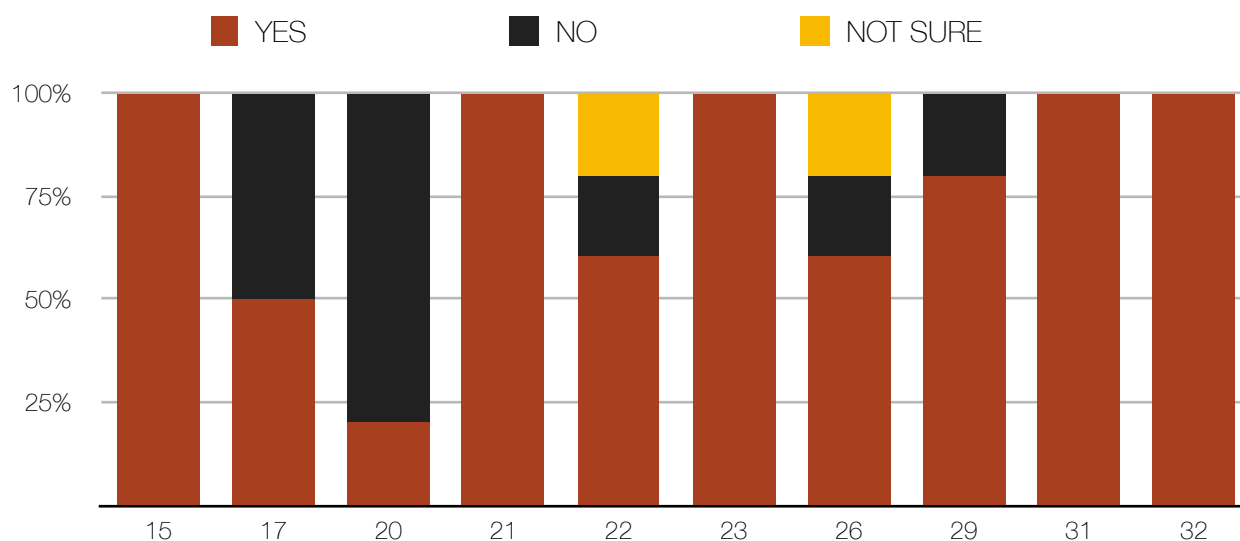


Figure 4: Role of sound political and economic institutions



Framing the results from an Economic perspective

Considering the dire need for Lebanon to exploit its gas and oil resources, not only in an attempt to restore its financial model but more importantly to restore trust, the delineation will mainly raise confidence within the leading international players, be it governments, companies, or international community and will also benefit residents from cash transfers in the short-run. By reducing uncertainty, delineation will attract investors and reduce the cost of doing business in the absence of contested areas and will allow the expansion and strengthening of long-term partnerships with offshore exploration companies. Ghana's dispute with cote d'Ivoire makes this point: The land boundaries between Ghana and cote d'Ivoire were defined and demarcated during the colonial era except for a contested maritime border. Ghana started exploring oil in its territorial waters before finalizing the delimitation of its borders with Cote d'Ivoire and did the Ivory coast. Both faced many challenges and disputes in this regard, starting with concerns of the foreign firms exploring for oil in Ghana's territorial sea. This lead the Government of Canada in 1989 to demand assurances concerning the drilling concessions granted by Ghana offshore near the border with La Côte d'Ivoire. Similar obstacles were regarded at the Ivorian cost. Such disputes have not been resolved while their respective citizens wait anxiously for the negotiations' outcome, putting on holding several millions of dollars as potential revenues for both countries (Bening, 2014).

Such long-term partnerships can hedge for future financing of the Lebanese public debt. Once long-term deals have been signed, future revenues from gas production and exports will induce improvements in long-awaited government investments in education, health care, transportation, environment, water, poverty reduction, social cohesion, and political stability.

Switching to gas will reduce both the oil-importing sector's dependence and the cost of production and environmental harming. By exploiting its gas resources, Lebanon could be a pioneer in the global pact for the environment and be a center for international interest.

Moreover, delineation will prompt international companies hence international expertise. Such expertise will positively impact local capacity building in the development of local economies, skilled human capital, and the creation of professional job opportunities.

The above optimistic views are only conditional to the government adopting sound oil and gas strategies, ensuring revenue diversification, and initiating a sovereign wealth fund to ensure the proper usage of resources.

Any mismanagement of revenues can generate slower economic growth compared to resource-poor countries. Countries are threatened to become dependent on the resource sector, which could later lead to the Dutch disease: loss of fiscal revenue due to lack of investment in productive tradable sectors, exchange rate appreciation than depreciation, higher inflation, and a reduction in real income. Diversification is a key since resources are depletable.

Emphasis also should be put on inclusive growth that generates social gain aside from financial gain (Witter and Jakobsen, 2017) in the sense that government spending should be oriented to the fulfillment of human rights and equitable wealth distribution. Only then Sustainability will be ensured.

Policies should focus on 'What do we want to achieve?', rather than 'We have funds, what should we spend them on?'

Framing results from a Political perspective

The expectation of gas discovery seems to be a driving motive for the government to set up laws, decrees, create committees, and hire employees for the sector. Overrated statements promising prosperity and wealth echoed amid a multifaceted crisis. Nevertheless, political challenges are too engrained to ignore: complex sectarian system, loss of trust in the current political class as a result of historical corruption, a regional turmoil, and an ongoing conflict with Israel, with whom Lebanon also faces a dispute on an 850 sqm/km contested area recently increased to 1430 sqm/km within the maritime borders (Lorient le jour, 2020).

Any successful delineation agreement will smoothen political turmoil, induce a politically stable environment and prepare for a full-fledged compromise at the economic, political, and geographical levels. Such stability in the region will encourage companies to resume exploration works and translate into broader trade relations with several partners. Such events will also improve the livelihoods of residents at the southern Lebanese borders in particular.

Given that the Israeli claim has no legal ground and is merely political, negotiations should resume under an international and legal umbrella asap since any delay will induce cost solely on the Lebanese government. Successful delineation of the EEZ will introduce bilateral talks and reduce the magnitude of Lebanese-Israeli conflict. Moreover, as long as the disputed zone does not have a clear border with Israel, exploitation of natural resources in bloc 9 remains blocked. Any acceleration with the maritime borders' delineation will ensure Lebanon can exploit its natural resources and put it back on the international map. From which stems the importance of going to international arbitration, international tribunals, and the UN.

Framing results from an Institutional perspective

A wide range of empirical studies demonstrate the importance of institutional quality, policy choices, and good governance in shaping the benefits and risks of resource revenues (Mehlum et al. 2006; Robinson et al. 2006).

In the absence of a sound institutional setting, and under the current political setting, any potential resource revenues from the demarcation deal will encourage and stimulate poor spending decisions and little fiscal prudence, further feed the 'rentier state' while crowding out productive private-sector activity and generating below-average economic outcomes. In the absence of Sovereign wealth fund SWF, the excess availability of potential cashflow of money to spend beyond the economy's capacity will weaken prudence in spending, and the government will prioritize short-term expenditure over long-term sustainable investments. On the other hand, good governance can reduce the risks or lower investors' operating costs. Similarly, good governance can ensure prudence and efficiency in managing resource revenues for the ultimate benefit of citizens, such as via fiscal rules, SWFs, or expenditure policies. The more specific binding and formal rules are set between companies and government and between governments, the more inclusive and sustainable growth can be achieved, as shown in the figure below.

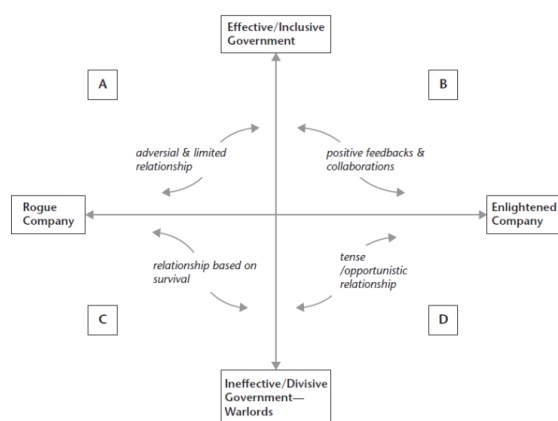
Currently, Lebanon faces a rooted institutional challenge: an inefficient public sector, unprecedented corruption, lack of transparency, appointments based on clientelism and sectarianism, uncertainty of laws, mismanagement, and "warlords" behavior. All the above are actual impediments towards advancements in negotiations hence in monetary rewards. Hence, better institutions and good governance are vital towards a successful outcome, but Technocratic Institution-building Have Limitations from which political leaders' urgency to set on common grounds despite their political divergence. The main common grounds are: Implementing the rule of law, ensuring legislative framework, reducing corruption, and implement reforms before proceeding. This can operate via private-sector channels cooperation, i.e., between civil society and political parties representatives similar to OPES initiative.

"The most important is corruption and the respect of law. There is no sovereignty of law; the law has to be among us all." (Rudi Baroudi, November 20, 2020)

All parties must be aware that effective institutions are vital to the success of negotiations both in a technocratic sense and in the political context that ensures their very own political interests throughout the process.

"It is also essential to make sure that Lebanon and the Lebanese – not the corrupt political class that is still ruling Lebanon – benefit from any monetary rewards resulting from the offshore drilling in the future" Ghaddar 2020.

Figure 5: Impact of various institutional settings



Source: Extractive industries, the management of resources as driver of sustainable development

RECOMMENDATIONS:

An essential task of policymakers and political leaders is to explore all possible ways to deliver the best possible outcomes from the delineation agreement. This includes a first step to enter into negotiations with several international and national political groups, governments, and international organizations regardless of their political stance. Another envisioned solution currently being undertaken and should be followed up extensively is to allow an international and neutral mediator to intervene given its skills and legitimacy or resort to international law whereby similar cases with maritime borders dispute were faced.

Thirdly, accelerate and monitor the existing bidding process transparently with clear publicly known guidelines to ensure the latter transparency for qualified and renowned companies whereby such companies would stand by Lebanon in the dispute over the contested area to maximize their own exploited area hence profits.

Such practices should be objective, transparent, and freed from any political agendas. A positive, neutral stand from the regional turmoil would enhance the chances of a peaceful resolution. Strategies to accelerate peaceful agreements should be guided by realism, neither euphoria nor despair, and they are subject to legislative makeover to update laws and decrees and enforce them.

Communication is vital in this regard. The bigger the number of stakeholders, the more transparent engagement will be in the oil and gas resources. This will allow the international community to scale by acting as a catalyst among various political parties, where more minor interventions may lead to more extensive results.

Another essential dimension is the exploration and exploitation of national resources. Such a step requires a multi-disciplinary approach whereby political, financial, economic, technical, and environmental problems, among others, need to be addressed. Lebanon needs to adopt some legislation to fight corruption, implement transparency in the staff appointment, and, most importantly, establish a stabilization fund or a sovereign wealth fund. For that matter, Lebanon is advised to follow international practices in dictating its SWF whereby it is being monitored and managed by an independent committee, appointed by the government, and accountable to both the government and parliament under a specific mandate. Actually, in the case of cash inflows without absorptive capacity of the economy, the SWF works as a "piggy bank" for future generations to provide revenue smoothing (such as when used in part as a revenue stabilization fund) for future sustainable income, to diversify income, and to limit current available government expenditure based on the absorptive capacity of the economy.

The choices of SWF investments include, among others: saving by depositing funds in general foreign currency reserves managed by the nation's central bank, investing in S-T and L-T infrastructure projects, public spending channels to improve livelihoods, and finally investing in structural information and economic diversification such as new training initiatives targeted at new emerging industries; and other improved productivity-enhancing initiatives via research and development and enterprise development.

Any delays are costly within the current economic situation. Waiting for the new American administration to seal a whole deal for Lebanon before proceeding while neighboring countries have advanced in their exploration and excavation of national resources will cost the Lebanese population a lost century and not a decade. Israel is already ahead of us, and the exploration and appraisal phases can last a very long time (years or even decades) to put gas in production (Meier, 2013).

In desperate economic conditions, this paper highlights the importance and urgency of reaching an agreement regarding Israel's disputed area and finalizing the EEZ delineation. In this regard, this will attract several hundred million dollars of capital, facilitate gas discoveries, and initiate drilling of exploratory wells in the next few years. The government risks from gas discoveries may be reduced drastically, bringing substantial benefits to the country and region.

Delineation will reduce uncertainty, attract investors, smoothen political tension and bring Lebanon back to the international map. Under a well-functioning institutional setting, the scale of potential monetary rewards and fast-track national prosperity are incremental. This impact of unexploited reserves on per capita income, resource wealth, and subsequent economic growth can raise the country's average living. This is conditional on setting up an institutional infrastructure that builds on new legislation aiming at the anti-corruption framework and a non-discriminatory treatment of bidders, good governance reforms, economic policies based on diversification and inclusive growth, and the establishment of an SWF.

Finally, a very cautious strategy might conclude: 'leave the resources in the ground.' Bear in mind that such a decision carries a considerable opportunity cost at the monetary, political, and international levels for current and future generations.

Lebanon should stop kicking the can and waiting for external forces to change the game settings. Policymakers should responsibly take things in hand to transport the country into a brighter, greener, and wealthier haven.

References:

1. Addison, T., & Roe, A. (2018). Extractive industries: The management of resources as a driver of sustainable development (p. 768). Oxford University Press.
2. Aftimos, M. (2020). Research report, OPES.
3. Ahmad, A. & Barrier, F. (2018) "The geopolitics of oil and gas development in Lebanon", Policy Brief, 1, AUB policy Institute, p.3
4. Akleh, T. (2020). Beirut port: Irreplaceable importance in the middle of Lebanon's geography. Arabian Business Global. Retrieved from <https://www.arabianbusiness.com/politics-economics/450512-beirut-port-irreplaceable-importance-in-the-middle-of-lebanons-geography>
5. Association Suisse pour le dialogue Euro-Arabe-Musulman (2012, November). The Legal Framework of Lebanon's Maritime Boundaries: The Exclusive Economic Zone and Offshore Hydrocarbon Resources. Retrieved from <http://lebcsr.org/wp-content/uploads/2017/12/LegalFramework.pdf>
6. Atlantic council, November 20, 2020. Stormy waters: Israel and Lebanon negotiate their maritime border. Retrieved from: <https://www.atlanticcouncil.org/blogs/menasource/stormy-waters-israel-and-lebanon-negotiate-their-maritime-border/>
7. Bening, R. B. (2014). The Ghana-La Côte D'Ivoire maritime boundary dispute. Ghana Journal of Geography, 6, 81-101.
8. Daily star, 7 September 2012. Retrieved from <https://www.dailystar.com.lb/Business/Lebanon/2012/Sep-07/187039-lebanons-offshore-gas-likely-exceeds-cyprus-syria.ashx>
9. Ghaddar, H. (2020). Lebanon-Israel Border Demarcation Talks Begin: Who will Benefit? Majalla, October 16. Retrieved from <https://aus.libguides.com/apa/apa-newspaper-web>
10. Lebanese petroleum administration website, resource center section. Retrieved from <https://www.lpa.gov.lb/english/resource--center>
11. McKinsey Global Institute (2013). Reverse the Curse: Maximizing the Potential of Resource- driven Economies'. London: McKinsey & Company
12. Meier, D. (2013). Lebanon's maritime boundaries: Between economic opportunities and military confrontation. Center for Lebanese Studies, Visiting Fellow. St. Anthonys College. University of Oxford: Oxford.
13. Middle East Strategic perspective (2018, March 5). The maritime border dispute between Lebanon and Israel explained. Retrieved from <https://www.mesp.me/2018/03/05/maritime-border-dispute-lebanon-israel-explained/>
14. Offshore magazine, 21st October 2019. Lebanon offering more offshore blocks as majors prepare to start drilling. Retrieved from <https://www.offshore-mag.com/geosciences/article/14069069/lebanon-offering-more-offshore-blocks-as-majors-prepare-to-start-drilling>
15. Rabih, M. (2021). Frontière maritime : Aoun s'aventure dans un champ de mines, L'Orient Le Jour January 1, 2021.

Appendix

List of questions	Answer	Answer	Answer	Answer
The demarcation of the Lebanese maritime borders will raise confidence among investors interested in Lebanon in general	Yes	Not sure	Yes	yes
The demarcation of the Lebanese maritime borders will raise confidence among investors in the oil and gas sector in particular	Yes	Not sure	Yes	yes
The demarcation of the Lebanese maritime borders will raise confidence within the international community	Yes	Yes	Not sure	yes
Do you consider political neutrality a pre-requisite for successful negotiations?		No	No	no
The demarcation of the Lebanese maritime borders will attract capital inflows in other sectors	Not sure	Not sure	Not sure	no
The demarcation of the Lebanese maritime border will generate revenues and solve the sovereign debt problem	Not sure	Not sure	Not sure	no
The demarcation of the Lebanese borders will quantify an estimate of the resourceful area of Lebanon allowing investors to plan long terms projects	Yes	Not sure	Yes	yes
The demarcation will boost the touristic sector	Not sure	No	No	no
The demarcation will boost the industrial sector	Not sure	Not sure	No	no
The demarcation will lead to some money injection and solve short term liquidity problems	Not sure	Yes	No	yes
The demarcation will rebuild trust in the current ruling class	Not sure	No	No	no
Parties involved in the demarcation negotiations will most likely be reelected	Not sure	Not sure	No	yes
The economic recession will have a negative impact on market attractiveness regardless of the demarcation	Yes	Yes	Yes	no
The presence of turmoil and corruption, lack of stability and transparency will impede successful demarcation discussions	Yes	Yes	Not sure	yes
The role of sound political and economic institutions is pivotal in the exploitation of the oil and gas revenues	Yes	Yes	Yes	yes
The strategic location of Lebanon attracts interests and plays a favorable role in the international negotiations	Not sure	No	Yes	yes
Lebanon is threatened to become a resource dependent country if it does not set a plan for how to invest oil and gas revenues	No	Yes	Yes	no
The demarcation has become of less importance because of the shrinking levels of global market demand for resources (minerals and oil and gas)	Not sure	Yes	Yes	yes
There is a gradual shift of the sources of supply to less developed countries	Yes	Not sure	Yes	no

High extractive industry dependence on oil and gas could generate such consequences: loss of fiscal revenue, exchange rate depreciation, higher inflation, and a reduction in real income. Do you agree	Yes	Not sure	Yes	yes
A wealth fund is crucial to avoid problems that might arise from a too rapid pace of development	Yes	Yes	Yes	yes
Decree on transparent procurement system should be finalized	Yes	Yes	N/A	no
The decrees of oil and gas sector should be finalized	Yes	Yes	Yes	yes
The demarcation will generate harmful influences on resource discovery and on the political economy (influences that weigh against the effectiveness or of the recommended 'good governance' practices (clientelism, rent seeking, extraction)	No	Not sure	Not sure	yes
Extractive lead growth is possible (growth lead solely by the revenues generated from resources)	No	Not sure	Not sure	no
The potential resource discovery from the demarcation deal will encourage and stimulate poor governance and thus poor spending decisions and little fiscal prudence	No	Yes	Not sure	yes
A successful demarcation under the current political class will feed on 'rentier state' and will crowd out productive private-sector activity	No	Yes	Yes	no
The availability of potential cashflow of money to spend will weaken prudence in spending and the government will not prioritize investments that enable long-term income generation	Not sure	Yes	Yes	yes
Poor governance and institutions are more important than demarcation of maritime borders to avoid poor economic outcomes	Yes	Yes	Yes	no
Achieving institutional good governance in Lebanon with a relatively low capacity to manage the oil and gas sector will be a long and unsuccessful from the very beginning		Not sure	Yes	no
upon demarcation, you are in favor of developing projects as quickly as possible that will rapidly deplete those resources	Not sure	No	No	no
upon demarcation, you are in favor of saving part of the revenue in a wealth fund for future generations	Not sure	Yes	Yes	yes

OPES

January 2021

www.opeslb.org
Beirut, Lebanon



**PUBLISH WHAT
YOU PAY**